

# HENNGE (4475 JP)

## Evidence of Future Growth Seen Through the Trajectory of ARR Expansion.

### Executive Summary

9 Jan 2026

Following the publication of our Initiation Report (February 2025) and the Okta Comparison Report (July 2025), we have received various comments and feedback from investors. Among them, there has been a need to understand the strategic history behind the past ARR trends when forecasting the future ARR trajectory of HENNGE One. In fact, HENNGE appears to receive a large number of similar questions in the course of its IR activities. In this follow-up report, we will: (i) explain the trajectory of HENNGE's SaaS business, focusing mainly on the strategic evolution at key turning points; (ii) discuss the credibility of HENNGE's 20% ARR growth plan, as supported by its historical track record versus company guidance; and (iii) present CGS's ARR growth outlook (an average ARR growth rate of 18% over the next four years).

The conclusions of this report are as follows:

- HENNGE's SaaS business has achieved high ARR growth through the following stages: (i) the accumulation phase of trust assets (prior to FY2019); (ii) the price re-definition phase triggered by the Company's listing (FY2019–FY2021); (iii) the growth re-acceleration phase accompanied by ARPU improvement (from FY2021 onward); and (iv) the price revision implemented in FY2024. It can be said that the Company's ability to convert favorable external conditions into growth—through the continuous addition of new functions and the enhancement of management resources—demonstrates its strong execution capability. We also believe that the contribution of the development division has been significant, as the Company has continued to expand functionality without experiencing any major incidents.
- With respect to the Company's initial full-year plans, HENNGE has continued to deliver results that, for both revenue and profit, have generally exceeded its guidance. HENNGE aims to achieve an average ARR CAGR of 20% or more and reach ARR of ¥20 billion in the fiscal year ending September 2029. Based on the Company's historical performance and its proven ability to achieve plan targets, CGS considers this target to be fully attainable.
- CGS maintains its previously assumed scenario in which ARR reaches ¥21.4 billion in the fiscal year ending September 2029. We expect ARR to follow a growth trajectory in which the ARR growth rate stabilizes at around 17–18% from the fiscal year ending September 2026 onward, supported by the sustained enhancement of HENNGE One's value proposition and pricing strategy. It should be noted that CGS's forecast does not incorporate

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### HENNGE K.K. (4475 JP)

Share Price (8 Jan 2026) JPY 1,325

Market Cap US\$ 270 million

FY (Sept-end)	F25E	F26E	F27E	F28E
EPS	43	52	60	71
P/E	31x	25x	22x	19x
EV/EBITDA	19x	15x	11x	9x
P/B	10.9x	8.1x	6.4x	5.1x
Div. Yield	0.4%	0.5%	0.8%	1.0%
ROE	40%	36%	32%	30%
ROIC	34%	32%	30%	29%
FCF Conv.*	196%	155%	152%	167%

\*FCF Conversion = FCF ÷ Net Profit

a further price increase, and therefore there is a slight difference relative to the Company's target of ARR growth of 20% or more.

A transcript of our discussion with Mr. Kobayashi, Executive Officer and CFO of HENNGE, is included after the main text. We hope that readers will be able to appreciate the Company's confidence in future ARR growth and the basis for that confidence.

## ① An Explanation of the Growth Trajectory of HENNGE's SaaS Business, with a Primary Focus on Strategic Evolution at Key Turning Points

In this chapter, we will focus on this point and look back on the history of the Company's ARR strategy. For reference, we present a table showing the historical transition of ARR by fiscal year and its constituent elements. HENNGE's SaaS business has evolved into a high-growth and high-profit business; however, behind this evolution lies a long history of investment in reliability and strategic transformation. Among these, the transformation of the pricing strategy—which significantly changed the pricing practices in the domestic IDaaS market—and the establishment, from 2021 onward, of a management model centered on ARR ( $N \times n \times \text{ARPU}$ ), have been the key factors fundamentally supporting the current revenue structure. We divide the growth process of the Company's SaaS business, centered on HENNGE One, into three phases and provide an explanation: (1) the foundation-building phase through the accumulation of trust assets; (2) the price re-definition phase triggered by the Company's listing; and (3) the growth re-acceleration phase accompanied by ARPU improvement.

Ex.1: Trends in ARR and Its Components in HENNGE's SaaS Business										
	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 (%)
FY2014	563		232		1,187		275,384		2,042	
FY2015	880	56.3%	399	72.0%	1,095	-7.8%	436,905	58.7%	2,015	-1.3%
FY2016	1,288	46.3%	642	60.9%	1,018	-7.0%	653,556	49.6%	1,970	-2.2%
FY2017	1,898	47.4%	928	44.5%	1,107	8.7%	1,027,296	57.2%	1,848	-6.2%
FY2018	2,552	34.5%	1,176	26.7%	1,166	5.3%	1,371,216	33.5%	1,861	0.7%
FY2019	3,240	27.0%	1,428	21.4%	1,171	0.4%	1,672,188	21.9%	1,938	4.1%
FY2020	3,909	20.6%	1,667	16.7%	1,169	-0.2%	1,948,723	16.5%	2,007	3.6%
FY2021	4,740	21.3%	1,952	17.1%	1,095	-6.3%	2,137,440	9.7%	2,217	10.5%
FY2022	5,602	18.2%	2,213	13.4%	1,050	-4.1%	2,323,650	8.7%	2,410	8.7%
FY2023	6,929	23.7%	2,610	17.9%	912	-13.1%	2,380,320	2.4%	2,910	20.7%
FY2024	8,753	26.3%	2,951	13.1%	845	-7.3%	2,493,595	4.8%	3,508	20.5%
FY2025	11,135	27.2%	3,427	16.1%	817	-3.3%	2,799,859	12.3%	3,977	13.4%
FY2026E	13,150	18.1%	3,950	15.3%	780	-4.5%	3,081,000	10.0%	4,270	7.4%
FY2027E	15,500	17.9%	4,500	13.9%	746	-4.4%	3,357,000	9.0%	4,620	8.2%
FY2028E	18,250	17.7%	5,120	13.8%	713	-4.4%	3,650,560	8.7%	5,000	8.2%
FY2029E	21,400	17.3%	5,800	13.3%	682	-4.3%	3,955,600	8.4%	5,410	8.2%

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

### 1) The Era of Trust Building: Accumulating “Scale and Trust” While Being Constrained by a Low-Price Market (–2019)

When HENNGE One began its journey as a service in the early 2010s, although some early adopters had started migrating to the cloud in the context of BCP measures following the Great East Japan Earthquake, the cloud migration of Japanese companies was still in its infancy. Many companies were cautious about shifting to SaaS, and the “selection criteria” of IT personnel depended more on “the sense of security that no incidents would occur” than on functional differences. Under such circumstances, HENNGE built a robust platform that did not experience any serious incidents, and, with a deep understanding of the psychology of IT departments—who would be held responsible in the event of a security incident and asked “why did you choose that product?”—continued to make “investments in accumulating peace of mind.”

At the same time, however, the external environment was a headwind. When Microsoft entered the Japanese cloud services market in 2014, it adopted an aggressive low-price strategy to compete against Google, which had previously dominated the market. Within this context, IDaaS optional services were offered at an extremely low price of ¥2,000 per user per year (equivalent to around ¥160 per month). The impact of this was significant, and **the prices of many IDaaS providers effectively became capped at ¥2,000 per user per year**. As shown in Ex.1, ARPU remained at around ¥1,800–2,000 prior to the fiscal year ended September 2019, reflecting this situation (ARPU being below ¥2,000 is due to the fact that the figure shown is net of commissions paid to distributors). As a result, HENNGE faced a structural constraint in which it was unable to present pricing that fully reflected the value of its services. Nevertheless, even under such a pricing environment, the Company proactively expanded alliances, steadily broadened its distributor-based sales network, and strengthened its own sales structure. As a result, HENNGE consistently increased the number of contracted customers every year, expanding its business base by accumulating “volume” even under a low-ARPU environment.

What is important here is that the customer base and operational track record accumulated during this period later functioned as “social proof,” which was indispensable for subsequent price restructuring. The combination of trust building and customer accumulation laid the foundation for the Company’s leap forward from 2019 onward.

## 2) 2019: Gaining Credibility Through Listing and Redefining the Pricing Strategy

**It was in October 2019, when the Company was listed on the stock exchange, that the trust assets accumulated up to that point fully demonstrated their effectiveness.** In the field of security-related products, being a listed company functions as a kind of “certificate of quality,” guaranteeing continuity and a strong compliance framework. For IT departments at customer companies, the fact that “other companies are using the service” and that it is “provided by a listed company,” combined with the comfort provided by the listing itself, made it easier for the decision to adopt HENNGE to be accepted internally.

**In June 2019, prior to the listing, HENNGE introduced, for the first time, a structured pricing plan, reorganizing its offerings into a three-tier structure consisting of HENNGE One Secure Access (¥400 per month), HENNGE One Standard (¥500 per month), and HENNGE One Business (¥750 per month). The new pricing was applied to new customers, marking the beginning of a full-fledged validation of the balance between value and price.** The monthly fee of ¥500 for HENNGE One Standard was, from the perspective of the previous contract level of ¥160 or less per month, a bold pricing decision. At that time, a price increase for existing customers was not implemented, as it was deemed highly difficult; nevertheless, 2019 can be considered the year in which HENNGE “earned the right to discuss price,” and also the turning point at which the era of low-price constraints began to move toward an end.

Furthermore, from around this period, the Company’s financial disclosure materials explicitly began to emphasize proactive marketing investments—centered on “accumulation of contracted customers” and “expansion of service recognition” through online events and seminars—indicating that the groundwork for ARR expansion was being put in place.

## Ex. 2: The First Systematic Pricing Plan Introduced in June 2019

### New plan of HENNGE One (June 2019)

HENNGE One Secure Access	HENNGE One Standard	HENNGE One Business
SaaSとのシングル・サインオンと端末制御機能を含めた、エントリー向けのプランです。	Office 365/G Suiteやその他SaaSとのSSOにメール誤送信対策を含めた標準プランです。	Standardプランに端末制御に必要なデバイス証明書を追加したエンタープライズプランです。
月額 <b>400</b> 円 (税抜) 1ユーザー/月 (年間契約)	月額 <b>500</b> 円 (税抜) 1ユーザー/月 (年間契約)	月額 <b>750</b> 円 (税抜) 1ユーザー/月 (年間契約)
<b>プラン内容</b>	<b>プラン内容</b>	<b>プラン内容</b>
<ul style="list-style-type: none"> <li>HENNGE Access Control</li> <li>HENNGE Secure Browser</li> <li>HENNGE Device Certificate</li> </ul>	<ul style="list-style-type: none"> <li>HENNGE Access Control</li> <li>HENNGE Secure Browser</li> <li>HENNGE Email Archive</li> <li>HENNGE Email DLP</li> <li>HENNGE Secure Transfer</li> </ul>	<ul style="list-style-type: none"> <li>HENNGE Access Control</li> <li>HENNGE Secure Browser</li> <li>HENNGE Email Archive</li> <li>HENNGE Email DLP</li> <li>HENNGE Device Certificate</li> <li>HENNGE Secure Transfer</li> </ul>
<small>※ デバイス証明書発行 (1ユーザー1枚まで)</small> <small>※ 提供可能ライセンス数 200ライセンス～</small>	<small>※ デバイス証明書発行 (有償オプション)</small> <small>※ 提供可能ライセンス数 100ライセンス～</small>	<small>※ デバイス証明書発行 (1ユーザー3枚まで)</small> <small>※ 提供可能ライセンス数 100ライセンス～</small>

Source: Company Material

### 3) 2021: A Shift in Management Policy That Clarified the Inflection Point in ARR Growth, and the Establishment of a Value-Creation Cycle

In 2021, the Company clearly announced a shift in its management policy aimed at re-accelerating ARR growth.

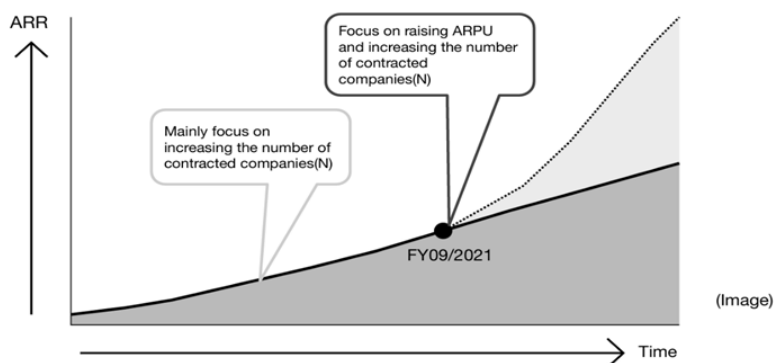
Specifically, it transitioned from a model primarily focused on “expanding through an increase in N (the number of contracted companies)” to a dual-driver model that aims to “maximize the value of existing customers by increasing ARPU in addition to N.”

What symbolized this inflection point was the price revision implemented simultaneously with a large-scale update of HENNGE One. Newly introduced functions such as HENNGE Secure Download and HENNGE Cloud Protection were exactly what users required in the zero-trust era, and were accepted by customers not as a simple price increase, but as “consideration for an upgrade.” The pricing structure was reorganized into Basic (¥600 per month) and Pro (¥1,000 per month), and with the addition of single-function plans, the offering was redesigned to provide a natural growth path for customers ranging from light users to large enterprises. **Introduction began with new customers, and after sales teams had accumulated sufficient explanation know-how, the new structure was rolled out to existing customers. As a result, by the fiscal year ended September 2023, nearly all customers had successfully migrated, and ARPU began to follow a clearly upward trajectory. This entire process itself represents the value-creation cycle advocated by HENNGE—namely, (1) establishing a structure for acquiring new customers → (2) enhancing the added value of services → (3) reliably delivering this value to customers—and has become firmly established as the engine driving corporate value enhancement.**

**Ex. 3: New Management Strategy Announced at the FY2021 Financial Results Presentation**

**Growth Strategy on and After FY09/2021**

Create an inflection point in ARR growth by increasing the number of contracted companies (N) and ARPU.



Source: Company Material

**Ex. 4: New Pricing Structure Announced in August 2021**

**Renewal of Service Lineup for HENNGE One**

Service lineups were renewed from Oct 2021. Approaching varieties of customers with high value-added suite plans, as well as setting up single-function plans for light users.

Set plan	Description	Price
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
HENNGE One Pro		@JPY1,000/mon

Single-function plan	Description	Price
HENNGE IDP Lite	SSO/IP address control/OTP/AD Connect etc.	@JPY150/mon
HENNGE IDP	Lite function/Device certificates/Support Plus/Lock Plus etc.	@JPY300/mon
HENNGE IDP Pro	IDP/Secure browser/Additional device certificates etc.	@JPY500/mon
HENNGE DLP	Delayed sending/Filtering etc.	@JPY300/mon
HENNGE ARC	Archive etc.	@JPY300/mon
HENNGE Cloud Protection	Behavior detection/Sandbox etc.	@JPY200/mon

Source: Company Material

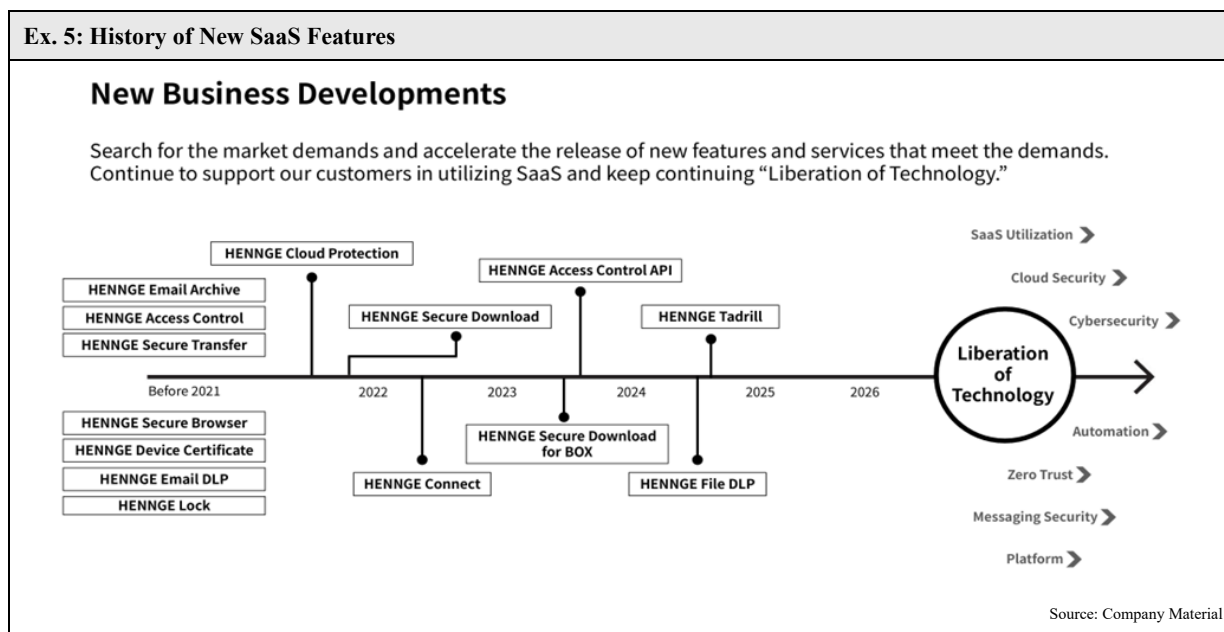
**External environmental changes also became a major tailwind for HENNGE.** From 2020 onward, the spread of COVID-19 significantly changed corporate behavior, accelerating the adoption of SaaS and cloud services. From 2022, additional tailwinds emerged. The policy shift toward “abolishing PPAP,” led primarily by government and public institutions in Japan, redefined the risk of information leakage originating from email attachments as a matter requiring corporate governance. This strongly highlighted the importance of secure file-transfer functions, including HENNGE Secure Download. In addition, the amendment to Japan’s Act on the Protection of Personal Information in April 2022 significantly strengthened reporting obligations and penalties in the event of data breaches, thereby elevating information management from being merely a matter of IT department discretion to an area of managerial responsibility. As a result,

control functions such as access rights management, multi-factor authentication, device control, and log auditing came to be positioned not as “nice-to-have” added value, but as essential foundational requirements for companies.

HENNGE, whose mission is “Liberation of Technology,” has long developed its products with the aim of solving the pain points of corporate information systems departments, and has rapidly added functions such as HENNGE Cloud Protection, HENNGE Secure Download, and the HENNGE Access Control API. By continuously introducing new functions, the Company has simultaneously increased both customer dependency on its services and their willingness to pay.

In other words, the expansion of HENNGE’s ARR has progressed in a manner whereby external tailwinds are internalized through the enhancement of value driven by endogenous technological evolution. The fact that HENNGE has moved ahead of the market in delivering the “required level of security” and has established a structure that allows the appropriate reflection of provided value in pricing is, in itself, the strongest evidence supporting the Company’s sustainable growth potential. Of course, the expansion of advertising activities and the strengthening of the growth platform through increased investment in human resources have also contributed significantly.

**Ex. 5: History of New SaaS Features**



#### 4) 2024: Implementing a Price Increase Focused on HENNGE One Basic and Demonstrating a Sustainable Path for Future Price Revisions

In April 2024, HENNGE once again revised the pricing structure of HENNGE One, raising the monthly fee for the HENNGE One Basic plan from ¥600 to ¥800, while also revising the prices of single-function plans. Meanwhile, the monthly price of HENNGE One Pro was intentionally left unchanged at ¥1,000, thereby encouraging greater adoption and utilization of HENNGE One Pro plan. Although some customers did churn as a result of the price increase, the majority accepted the revision. This success demonstrated that HENNGE had transformed its business structure into one capable of continually implementing price revisions in line with delivered value, reinforcing the Company’s confidence in its strategy. Furthermore, by the end of the fiscal year ending September 2025, HENNGE One Pro had rapidly expanded to account for

17% of total revenue, indicating that customers recognize the value of the Company's services. Against this backdrop of strengthened conviction, HENNGE announced a new medium-term management plan in November 2024, targeting ARR of over ¥20 billion by FY September 2029.

**Ex. 6: Details of the Price Revision from April 2024****Renewal of Service Lineup for HENNGE One**

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

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

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

Source: Company Material

**Finally: Reliability Built on an Operational Track Record Without Major Incidents**

One of the key reasons HENNGE has been able to maintain ARR growth over many years is its unwavering commitment to a development and operational framework that prevents major incidents. This may sound obvious for a cybersecurity company, but it is, in fact, an extremely important factor. In the SaaS business, security incidents are not merely technical defects; they carry reputational risk that can overturn adoption decisions themselves.

In reality, there have been past cases in which vulnerabilities in email security products provided by competitors became problematic, allowing unauthorized external manipulation. Against this backdrop, HENNGE has consistently pursued a product architecture that balances fundamental security robustness with scalability. While meeting functional requirements, the Company has ensured that the overall service structure remains scalable, thereby avoiding destabilization risks. Although this point is often overlooked, it represents a strength that cannot exist without a high level of design philosophy and development capability. In the security domain, being a “company that has continued to invest in trust” is not simply a matter of product differentiation, but rather the very reason HENNGE continues to be selected by customers.



## ② Confidence in the 20% ARR Growth Plan Backed by the Company's Track Record of Achieving Its Past Targets.

HENNGE does not disclose ARR targets to the market on a yearly basis. However, we believe that by tracking the company's revenue plans and actual results, investors can accurately assess its ARR target achievement. As a starting point, the correlation between ARR and revenue in the HENNGE One business is extremely high. In particular, on a quarterly basis, the average ratio of HENNGE One ARR to HENNGE One revenue over the past five years was 98.4% (range: 97.2%–100.0%), a level where the margin of error can be considered negligible. Even on a full-year basis, the five-year average was 91.0% (range: 88.4%–92.6%), indicating that reported revenue very accurately reflects the true state of ARR. Among domestic SaaS companies, this places HENNGE among those with relatively high transparency in budget-to-actual management, and from an investor perspective, supports the view that the company's business visibility is high.

Against this backdrop, **reviewing historical plan-versus-actual trends shows that HENNGE has consistently delivered revenue and profit results that generally exceeded its initial company guidance.** In particular, revenue exceeded plan in five out of the six fiscal years from FY2020 to FY2025 (September year-end), with the most recent FY2025 revenue coming in at 105% of plan, demonstrating strong execution. The company states that it aims to “leverage its experience in achieving ¥10 billion in ARR, further evolve its value-creation cycle, and achieve average ARR growth of 20% or more from FY2025 onward, targeting ¥20 billion in ARR in FY2029.” Based on the company's past performance and its demonstrated ability to meet and exceed guidance, CGS believes this target is sufficiently achievable.

Similarly, operating profit has also exceeded plan in multiple years, including 208% of plan in FY2020 and 126% in FY2023, evidencing strong profit-generation capability over a multi-year period. Although FY2021 reflected a temporary adjustment due to increased strategic investment, operating profit has generally continued to outperform guidance thereafter. As a result, the company has consistently succeeded in optimizing the balance between growth investment and earnings.

**Ex. 7: Plan Achievement Rates for Revenue and Operating Income (Past 5 Years)**

(JPN mn, Yen)		FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Initial Company Plan	Revenue	4,110	4,841	5,782	6,725	8,316	10,441
	OP	259	310	434	561	945	1,574
Actual Results	Revenue	4,153	4,845	5,646	6,776	8,365	10,924
	OP	539	380	462	708	1,015	1,793
Achievement Rate	Revenue	101%	100%	98%	101%	101%	105%
	OP	208%	123%	106%	126%	107%	114%

Source:CGS

### ③ CGS's Outlook for ARR Growth: An Average Annual ARR Growth Rate of 18% Over the Next Four Years

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CGS continues to maintain its previously assumed scenario in which ARR reaches ¥21.4 billion in the fiscal year ending September 2029 (see Exhibit 1 for our forecast figures). We view this target as highly achievable even based on the current customer base. Supported by continued enhancement of HENNGE One's value proposition and the sustainability of its pricing strategy, we expect the ARR growth rate from the fiscal year ending September 2026 onward to remain on a stable trajectory of approximately 17–18%. It should be noted that CGS's forecast does not incorporate the next round of price revisions (as the precise timing is difficult to predict). The company itself has set a medium- to long-term target of ARR growth above 20%, and CGS considers the difference to be primarily attributable to the impact of such future price revisions.

This assumption is further supported by quarterly trends observed in the fiscal year ending September 2025. As the effects of the price revision fully ran their course from the third quarter onward, the following recovery trends became evident:

- Contracted companies (N): +15.3% in 3Q, +16.1% in 4Q (versus the prior four-quarter average of +14.0%)
- Average number of contracted users (N×n): +9.1% in 3Q, +12.2% in 4Q (versus the prior four-quarter average of +5.9%)

Growth has resumed on both indicators. With the impact of cancellations among certain large customers following the price revision now largely eliminated, the company's underlying growth rate is becoming visible again.

Furthermore, ARPU is also expected to remain on an upward trend. The rationale is based on the following three factors:

- (1) **Higher unit economics of new customers:** many existing customers still retain legacy discounts, and an increasing mix of higher-priced new contracts should directly contribute to ARPU growth;
- (2) **Rising contribution from HENNGE One Pro:** as security risks intensify, enterprise needs are becoming more sophisticated. Given that HENNGE One Pro already accounts for 17% of total revenue as of the end of September 2025, further migration toward Pro over the medium term appears likely;
- (3) **Future price-optimization potential:** as additional functionality continues to enhance delivered value, another round of pricing adjustments may come into view in three to four years. However, given the uncertainty, CGS has not incorporated this into its current forecasts.

**Ex. 8: Quarterly Trends in ARR and Its Components**

	ARR		N		n		N x 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 (%)
FY22Q1	4,859	18.5%	2,000	14.2%	1,085	-2.0%	2,170,165	11.9%	2,239	5.9%
FY22Q2	5,126	18.5%	2,056	13.4%	1,089	-1.6%	2,238,428	11.6%	2,290	6.2%
FY22Q3	5,371	18.0%	2,139	12.6%	1,068	-2.0%	2,283,588	10.3%	2,352	7.0%
FY22Q4	5,602	18.2%	2,213	13.4%	1,050	-4.1%	2,324,481	8.7%	2,410	8.7%
FY23Q1	5,782	19.0%	2,310	15.5%	1,013	-6.6%	2,340,891	7.9%	2,470	10.3%
FY23Q2	6,162	20.2%	2,406	17.0%	994	-8.7%	2,392,081	6.9%	2,576	12.5%
FY23Q3	6,548	21.9%	2,492	16.5%	971	-9.0%	2,420,702	6.0%	2,705	15.0%
FY23Q4	6,929	23.7%	2,610	17.9%	912	-13.1%	2,381,100	2.4%	2,910	20.7%
FY24Q1	7,109	23.0%	2,678	15.9%	896	-11.6%	2,399,258	2.5%	2,963	20.0%
FY24Q2	7,372	19.6%	2,792	16.0%	884	-11.1%	2,467,202	3.1%	2,988	16.0%
FY24Q3	8,159	24.6%	2,853	14.5%	869	-10.6%	2,478,433	2.4%	3,292	21.7%
FY24Q4	8,753	26.3%	2,951	13.1%	846	-7.3%	2,495,154	4.8%	3,508	20.5%
FY25Q1	9,606	35.1%	3,063	14.4%	854	-4.7%	2,614,589	9.0%	3,674	24.0%
FY25Q2	10,378	40.8%	3,182	14.0%	833	-5.8%	2,649,477	7.4%	3,917	31.1%
FY25Q3	10,731	31.5%	3,290	15.3%	822	-5.4%	2,703,704	9.1%	3,969	20.6%
FY25Q4	11,135	27.2%	3,427	16.1%	817	-3.4%	2,799,849	12.2%	3,977	13.4%

Source: CGS

## Management Interview

### Summary:

- ① **Drivers of ARR growth and sources of competitive advantage:** The primary success factor has been the Company's ability to continuously enhance customer value through the addition of new features, and, supported by that increased value, to implement price revisions. In particular, HENNGE Secure Download has made a significant contribution to acquiring new customers as a countermeasure to the "de-PPAP (abolishing PPAP)" trend. The core of the Company's competitive advantage lies in its product mix, which provides IDaaS, DLP, and cybersecurity as an integrated offering, delivering substantial benefits to customers in terms of both cost and operational burden. Its strong domestic track record and proven ability to operate stably without major incidents underpin its credibility.
- ② **View on the generative-AI era:** The spread of generative AI is not expected to undermine the competitive advantages of IDaaS or DLP. Reliability is of paramount importance, and short-term substitution by AI is not a realistic scenario.
- ③ **New customer acquisition remains healthy:** Overall, new customer acquisition continues to progress smoothly. The pipeline among small and medium-sized businesses is steadily building. Among large enterprises, the number of touchpoints originating from DLP is increasing against the backdrop of the de-PPAP trend. The Company does not foresee a major slowdown in growth in the domestic market. While ARPU is expected to rise over the medium to long term, the Company is monitoring the recent temporary slowdown caused by an increase in standalone DLP deployments.
- ④ **Pricing policy, investment policy, and U.S. business:** The next price revision will be implemented once sufficient preparation has been completed. The current fiscal year is positioned as a period for laying the groundwork for future value creation, with priority placed on investment in human resources and branding. In the U.S. business, while relationships with MSPs are progressing, sales to end-users remain in a trial-and-error phase, and the Company is prioritizing the accumulation of a track record.

**CGS:** Today, we are joined by Mr. Kobayashi, Executive Officer and CFO of HENNGE K.K. We have arranged this interview in order to complement our report by reflecting the direct views of the management team.



Photo of Mgmt. Meeting: From right, Kobayashi (CFO, HENNGE K.K.), and Demura (CGS)

**CGS:** Your company has achieved strong ARR growth by first establishing your pricing table following your 2019 listing, then re-accelerating growth accompanied by ARPU improvement from 2021 onward, and finally implementing a price increase in 2024. In your view, what was the most important factor behind these strategic decisions?

**Kobayashi, HENNGE:** The most important factor was that we continuously added new services and steadily enhanced the value we could deliver to our customers. Our ideal approach is to first provide services in a way that customers can accept with a sense of conviction, and then implement price revisions on top of that. If we were to raise prices without any change in what we offer, it would be natural for customers to question the decision — and that is not something we want to do. We clearly formulated the reasons for each price increase, embodied that rationale in the services themselves, and ensured that our sales teams were able to explain it properly to customers. I believe that being able to execute this entire process has been the single largest success factor over the past several years.

In addition, the introduction of new services has significantly contributed to the acquisition of new customers. HENNGE Secure Download in particular has had a strong impact. Since its launch in 2021 as a countermeasure to replace PPAP, there are still many customers who adopt HENNGE One with this feature as the trigger. We see the fact that new functions spark fresh interest and attract new customer segments as one of the key reasons why our growth has continued smoothly in recent years.

**CGS:** As you advanced your price revisions, how did customer reactions change?

**Kobayashi, HENNGE:** We implemented two price increases over the past four years, and in both cases we introduced new solutions at the same time. For the second increase, the new functions were not yet fully available at the time of the announcement. However, we subsequently added them in stages, creating a situation in which we were able to clearly explain the reasons behind the price revision. As a result, the pushback from customers was less than we had initially expected, and I believe there were very few cases where customers reacted by saying that “nothing has changed.” It was important that we ensured a sense of justification for the price increase, and that our sales teams were able to thoroughly explain the practicality and usefulness of the new functions. We were thus able to have the price revision take hold without causing a significant deterioration in churn. We intend to continue this approach going forward — steadily running the cycle of creating added value, and thereby achieving growth at the same level or even higher.

**CGS:** In this process, where do you think your company’s competitive advantages lie compared with other players?

**Kobayashi, HENNGE:** Our greatest advantage is our product mix. HENNGE One offers, in an integrated manner, the essential security functions required for cloud utilization — namely the Identity Edition, which handles IDaaS; the DLP Edition, which addresses data loss prevention; and the Cybersecurity Edition, which covers cybersecurity countermeasures. While many other companies provide these functions separately, we allow customers to complete everything with a single vendor, which gives us advantages both in terms of communication costs and pricing. In addition, with respect to IDaaS, we

have one of the strongest track records in Japan and have continued to operate our services stably without any major incidents. The reliability that comes from being a mission-critical solution that must never go down, together with our track record of stable operations, continues to underpin our competitive edge today.

**CGS:** Do you believe that your competitive advantages can be maintained even in the age of generative AI? We feel that more and more investors are beginning to factor in the medium- to long-term impact of AI. Over a five-to-ten-year horizon, how do you view the potential benefits and risks that the spread of AI may bring to your company?

**Kobayashi, HENNGE:** Even in the era of generative AI, we do not believe HENNGE's competitive advantages will change significantly. This is because IDaaS and DLP are not the kind of solutions that can easily be replaced by generative AI. If there were to be any meaningful impact, it would most likely be in the cybersecurity domain, where there may be some areas that AI could replace. On the other hand, although it is theoretically possible to build your own IDaaS using generative AI, it would not be realistic to use a newly created system — whose resilience against attacks has not yet been verified — as a mission-critical security solution. In the security field, reliability is paramount. Even if replacement were to become possible in the future, it would likely take a considerable amount of time, and during that period we expect to continue enhancing our functionality and growing our business. Therefore, we do not believe we will lose out.

At the same time, we intend to make active use of AI ourselves. In particular, efficiency improvements are progressing in the area of software development, where engineers are increasingly using AI in their coding. As long as an appropriate verification structure is in place, AI-generated code can be utilized sufficiently, and AI is also effective in detecting bugs in code written by our engineers. In addition, we are working to raise AI literacy across the entire company, including back-office functions, and the number of actual use cases is steadily increasing.

**CGS:** The number of your customers continues to grow steadily. We also understand that, in some cases, it may take two to five years from initial contact to order closing. How is your progress in acquiring new customers?

**Kobayashi, HENNGE:** Overall, the acquisition of new customers is progressing smoothly. By segment, the pace of deal progress continues to be slow in the large enterprise segment; however, the number of potential customers itself is steadily increasing. While there are still many opportunities where it is uncertain whether we can bring them to closing, the pipeline as a whole is expanding. By contrast, in the SME segment the pipeline continues to build up in a stable manner, and the difference in decision-making speed between the two segments is quite clear. In both layers, however, companies continue to advance their cloud adoption, and our perception remains unchanged that more and more of them recognize the need to strengthen security accordingly.

In many large enterprises, substantial on-premises assets remain, and although HENNGE's services can in fact be used, the introduction of the Identity Edition requires integration work with existing systems. As a result, there are cases where services provided by SIers or other vendors are selected instead. On the other hand, the DLP Edition can be used simply by integrating with Office 365 or Google Workspace and also offers functionality not available from others, making it

relatively well suited even for large enterprises. Against the backdrop of the move away from so-called “PPAP” practices, the number of large enterprises taking an interest in HENNGE is increasing. In addition, there are still many companies that continue to rely on VPNs even though their cloud environments are already in place. If the shift from VPNs to IDaaS accelerates, we believe that deal progress will become even smoother. Although this is still at the conceptual stage, if technologies emerge that make it easier to connect on-premises assets with IDaaS, the environment will likely change. For now, we aim to start relationships through the DLP Edition and eventually connect this to cross-selling opportunities.

As for the possibility that the growth in the number of contracted customers could slow, we do not expect a significant slowdown in the Japanese market, as we believe the trend toward greater cloud usage will continue even as AI becomes more widespread. The situation would be different if alternative products that clearly surpass IDaaS or DLP were to emerge in a short period of time; however, at this point, we do not see any signs that such a development is likely to occur within the next five years.

**CGS:** Could you share your thoughts regarding the next price revision?

**Kobayashi, HENNGE:** Please understand that the next price increase will only be implemented once we are fully prepared. We have consistently emphasized the importance of enhancing the value we provide, but at this point we are not yet at that stage. We position the current fiscal year as a phase in which we prepare for that, and we are making steady progress. We would therefore appreciate it if you could wait a little longer regarding the specific details.

**CGS:** How do you verify the level of demand for new features? Also, is it fair to assume that the risk of those features not becoming a trigger for price increases is relatively small?

**Kobayashi, HENNGE:** When developing new features, we first create a beta version and have our customers try it, obtaining their feedback in the process. Based on that, we refine the features, and by the time they are officially launched, we believe they are aligned with customer needs. In addition, we conduct market research and end-user research while proceeding with development, and the requests we constantly gather through our daily communication with customers are also important input. Since HENNGE’s services are mainly targeted at IT administrators, we place great importance on solving the real “pain points” they face. There is little point in developing features where the pain is unclear.

**CGS:** What is your outlook for ARPU?

**Kobayashi, HENNGE:** We believe that ARPU growth is achievable. By acquiring higher-priced new customers and increasing the proportion of HENNGE One Pro, we can raise ARPU. However, we are paying attention to the fact that ARPU growth was limited in Q4. This was due to DLP being sold as a standalone product to a greater extent than we had expected. If this trend were limited to large enterprises, it would not be an issue, since volume benefits would improve our productivity. However, the fact that a similar pattern was also seen among small and mid-sized customers was unexpected. If the proportion of single-function plans continues to increase, ARPU growth could become harder to achieve. Since it is

still unclear whether this trend is temporary or will become entrenched, and to what extent, we intend to continue monitoring it. From a sales perspective, we will continue to focus on selling the suite plans, and we expect this will help create an environment in which ARPU growth can be realized. Cases in which customers choose DLP alone include situations where they are already using another company's IDaaS, or where their core systems are built on on-premise assets and identity integration is handled through other means, and they select HENNGE only for the email-related solution. We do propose switching to our IDaaS, but in reality the switching cost tends to be high. Therefore, in order for customers who have adopted only DLP to also use our IDaaS, we believe a sustained dialogue over a period of several years will be necessary.

With respect to DLP, we also believe that new installations exceed switching from other vendors. There are still many companies that use Microsoft or Google services alone without having introduced an information-leakage prevention solution, and as "de-PPAP" has become a critical issue for Japanese companies, we are increasingly seeing cases where companies arrive at HENNGE while considering countermeasures. The fact that DLP serves as a hook for acquiring new customers is positive in itself, but the challenge going forward is how to link this to upselling. If we can add even more attractive functionality to our IDaaS, we believe the situation will change.

Against this backdrop, we recently announced a strategic partnership with Passpack. The password manager provided by Passpack has aspects that compete with IDaaS, but in reality it is used by many enterprises, and there have been cases where we have lost in competition because of the high convenience offered by password managers. In order to avoid such lost business opportunities, we decided to pursue this partnership as an additional option. Although the specific output of the partnership has not yet been determined, we expect that it may add attractive value to our IDaaS. At the same time, because password managers hold IDs and passwords, they inherently carry the risk of personal information leakage. Therefore, we intend to proceed cautiously with the partnership, carefully assessing whether sufficient security can be ensured.

**CGS:** Your plan for this fiscal year assumes a slight decline in the operating profit margin. In working toward ARR of 20 billion yen and future growth beyond that, which areas do you intend to prioritize for value-creation investments?

**Kobayashi, HENNGE:** Our main areas of investment are people and branding. We believe there is still ample room to grow revenue by increasing our sales force, but to do so we first need to strengthen our appeal in order to attract candidates. How we deepen the penetration of the HENNGE brand is an important factor not only in generating interest in our products but also in strengthening recruitment. In addition, when we eventually pursue M&A, we recognize that—because we have no prior track record in this area—it will be essential to communicate the meaning, benefits, and sense of assurance that come with joining the HENNGE Group. Initiatives that help share the company's values across all stakeholders are, in my view, extremely important.

On the other hand, we do not currently intend to conduct large-scale TV advertising. Measures focused solely on raising awareness do not directly translate into customer acquisition, hiring, or sourcing investment targets, and we understand that such spending is also difficult for investors to support. That said, there have been internal discussions that it would still be



worthwhile to verify the effectiveness of TV commercials. As such, in October we experimentally aired TV commercials for HENNGE One limited to the Kansai region, and we are now measuring the impact numerically. Depending on the results, we may consider rolling out to other regions, but if the impact is unclear, we may decide not to proceed. Through this kind of trial and error, we are exploring the most effective approach to branding.

**CGS:** Could you tell us about the progress of your U.S. business? Is it correct to understand that, at present, you are not specifically targeting Japanese companies in the U.S., but are instead developing the business mainly through local vendors?

**Kobayashi, HENNGE:** It has been about nine months since we launched our U.S. business, and we see a mix of areas that are progressing well and areas that remain challenging. Communication with MSPs, which act as our distributors, has been relatively smooth, whereas sales to end users are, as expected, still in a trial-and-error phase. Our brand recognition in the U.S. is still limited, and we are not yet in an environment where customers adopt our services easily. For that reason, we believe it is important to first build up a track record. As was the case in Japan, we feel that it will take a certain amount of time for the service to gain widespread acceptance.

In principle, we approach customers through MSPs, who act as our sales agents. While some MSPs operate at a state-wide scale, many are small- to mid-sized and vary widely—from family-run businesses to highly localized operators. There are even some MSPs that only serve companies within the family's immediate network. As a result, targeting MSPs at this stage is quite difficult. Although it would ideally be better to work with large MSPs, gaining access to them is not easy. For now, we have started with relatively small MSPs, focusing first on getting them to listen to us and prioritizing the creation of a track record. MSPs do not sell only our services; they bundle multiple solutions together, and therefore our services are basically only rolled out to the customers already covered by each MSP. As a result, there are challenges in terms of horizontal expansion. Separately, we believe that if we were to target Japanese companies operating in the U.S., we might need to take our own independent approach.

**CGS:** Today, we had the pleasure of welcoming Mr. Kobayashi, Executive Officer and CFO of HENNGE K.K., to discuss topics that long-term investors are likely to focus on when considering an investment in the company. Thank you very much for your time today.

## CGS Financial Forecast Model

	JPY mn	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY29E		
										Base Case	Bull Case	Bear Case
<b>Income Statement</b>												
Sales		5,646	6,776	8,365	10,924	13,003	15,253	17,904	20,784	20,784	24,927	17,780
COGS		874	1,098	1,329	1,478	1,737	2,010	2,328	3,118	3,118	3,240	3,023
Gross Profit		4,772	5,677	7,035	9,445	11,267	13,243	15,576	17,666	17,666	21,686	14,758
SG&A		4,309	4,970	6,020	7,652	9,123	10,681	12,459	13,437	13,437	15,867	11,677
Operating Profit		462	708	1,015	1,793	2,143	2,562	3,117	4,229	4,229	5,819	3,081
Pretax Profit		452	713	1,181	1,854	2,147	2,566	3,121	4,233	4,233	5,823	3,085
Income Tax		131	204	354	552	644	770	936	1,270	1,270	1,747	925
Minority Interest		0	0	0	-57	-142	-92	-42	-2	-2	-2	-2
Net Income		321	509	827	1,358	1,645	1,888	2,227	2,965	2,965	4,079	2,161
EBIT		462	708	1,015	1,793	2,143	2,562	3,117	4,229	4,229	5,819	3,081
D&A		39	36	40	75	69	128	125	128	128	133	131
EBITDA		501	744	1,055	1,868	2,212	2,690	3,242	4,357	4,357	5,952	3,212
Diluted Shares Outstanding		32	32	32.2	31.9	31.7	31.5	31.4	31.2	76.2	76.2	76.2
GAAP EPS (Diluted)		10	16	26	43	52	60	71	95	145	282	28
DPS		0	0	3	5	6	10	13	19	19	27	14
Payout Ratio		0%	0%	12%	12%	14%	16%	18%	20%	20%	20%	20%
COGS/Sales		15.5%	16.2%	15.9%	13.5%	13.4%	13.2%	13.0%	15.0%	75.0%	73.0%	77.0%
Gross Margin		84.5%	83.8%	84.1%	86.5%	86.6%	86.8%	87.0%	85.0%	25.0%	27.0%	23.0%
Other SG&A/Sales		76.3%	73.3%	72.0%	70.0%	70.2%	70.0%	69.6%	64.7%	16.2%	13.9%	19.3%
OPM		8.2%	10.4%	12.1%	16.4%	16.5%	16.8%	17.4%	20.3%	8.8%	13.1%	3.7%
EBITDA Margin		8.9%	11.0%	12.6%	17.1%	17.0%	17.6%	18.1%	21.0%	17.9%	20.8%	14.2%
<b>Cash Flow Statement</b>												
Net Income		321	509	827	1,358	1,645	1,888	2,227	2,965	2,965	4,079	2,161
D&A		39	36	40	75	69	128	125	128	128	133	131
Changes in Working Capital		353	575	944	817	907	1,254	1,477	1,513	1,513	2,515	1,036
OCF		777	1,228	1,930	2,726	2,622	3,271	3,829	4,607	4,607	6,726	3,329
CAPEX		-29	-89	-61	-67	-80	-394	-110	-145	-145	-150	-178
FCF		748	1,139	1,868	2,659	2,542	2,877	3,719	4,461	4,461	6,577	3,151
Acquisitions		0	0	0	0	0	0	0	0	0	0	0
Cash Dividends Paid		0	0	0	-96	-190	-302	-401	-593	-593	-816	-432
FCF III (OCF - ICF - Div)		657	802	1,895	1,295	2,352	2,575	3,318	3,868	3,868	5,761	2,719
Share Issuance (Repurchase)		-0	-270	-151	-469	-268	-266	-265	-264	-264	-519	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	991	2,084	2,309	3,053	3,605	3,605	5,242	2,719
<b>Conversion</b>												
OCF/EBITDA		154.9%	165.1%	182.9%	145.9%	118.5%	121.6%	118.1%	105.7%	105.7%	113.0%	103.6%
FCF/NI		233.0%	223.8%	225.8%	195.7%	154.5%	152.4%	167.0%	150.5%	150.5%	161.3%	145.8%
<b>Balance Sheet</b>												
Cash & Cash Equivalents, ST Inv		4,054	4,585	6,328	7,319	9,403	11,712	14,766	18,370	18,370	21,347	16,350
Accounts Receivable		115	170	187	191	225	264	309	456	456	546	390
Inventories		0	0	0	0	0	0	0	0	0	0	0
Total Current Assets		4,537	5,115	6,920	8,105	10,224	12,572	15,671	19,422	19,422	22,490	17,335
Net PP&E		161	168	290	300	311	576	561	578	578	597	590
LT Investments		259	556	460	1,357	1,357	1,357	1,357	1,357	1,357	1,357	1,357
Intangible/Goodwill		0	45	43	73	73	73	73	73	0	73	73
Total LT Assets		669	1,179	1,366	2,637	2,575	2,841	2,826	2,843	2,843	2,862	2,855
Total Assets		5,206	6,295	8,285	10,742	12,799	15,412	18,497	22,264	22,264	25,351	20,190
ST Debt & Curr. Portion LT Debt		0	0	0	0	0	0	0	0	0	0	0
Accounts Payable		27	29	38	42	47	55	63	77	77	115	41
Other Current Liabilities		2,982	3,764	5,055	6,494	7,431	8,716	10,231	11,876	11,876	14,267	10,142
Total Current Liabilities		3,009	3,793	5,093	6,536	7,478	8,771	10,294	11,953	11,953	14,383	10,184
LT Debt		0	0	0	148	148	148	148	148	148	148	148
Total LT Liabilities		105	86	206	362	362	362	362	362	362	362	362
Total Liabilities		3,114	3,880	5,299	6,898	7,840	9,133	10,656	12,315	12,315	14,745	10,546
Total Equity		2,092	2,415	2,987	3,844	4,959	6,279	7,840	9,949	9,949	10,607	9,644
Total Liabilities & Shareholder's Equity		5,206	6,295	8,285	10,742	12,799	15,412	18,497	22,264	22,264	25,351	20,190
<b>CCC</b>												
Days of Sales Outstanding (DSO)		8	8	8	6	6	6	6	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	10	10	10	10	9	9	13	5
Cash Conversion Cycle (Days)		-3	-2	-1	-4	-4	-4	-4	-1	-1	-5	3
ROE		16%	23%	31%	39%	36%	32%	30%	32%	32%	43%	24%
ROIC (icnl. Cash)		16%	21%	25%	34%	31%	30%	29%	32%	32%	42%	24%
Net Cash per Share		-73	-63	196	225	292	367	466	584	584	693	509

## Disclaimer

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