

HEROZ

Presentation Material for FY04/2023 Q3 Financial Results

March 10, 2023

HEROZ, Inc. | 4382 |

Notice

This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

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01



Financial Highlights

FY04/2023 3rd Quarter Performance Summary (Consolidated)

- Net sales for the first nine months of the current fiscal year totaled 1,879 million yen (+70.7%, YoY) due to organic growth and the consolidation of two companies, VarioSecure, Inc. and StrategIT, Inc. from this quarter.
- EBITDA, which the Company attaches great importance to, also grew to 352 million yen (+218.7%, YoY) due to improved profitability of existing businesses and the effect of M&A.

Disclose Key KPIs in AI SaaS Business

- With AI SaaS as the group strategy, we will strive to increase the ratio of recurring sales and achieve growth while establishing a stable revenue base.
- Three major KPIs are disclosed from this quarter: Annual Recurring Revenue (ARR), Recurring Revenue Ratio, and Churn Rate.

Evolution to AI SaaS Business Model

- Evolution to AI SaaS-type business model is progressing through M&A

Specifically,

- ARR realized 2.8 billion yen, up 376% YoY.
- Recurring Revenue Ratio was 63.9%, up 23 points YoY.
- Churn Rate remained low at 0.6% for our main service AI Security.

02



HEROZ Group Strategy



Name	HEROZ, Inc.
Location	PMO Tamachi 2F, 5-31-17 Shiba, Minato-ku, Tokyo
Established	April 2009
Representatives	Takahiro Hayashi/Tomohiro Takahashi
Business Description	AI/DX service AI Security service
Membership	Japan Deep Learning Association The Japan Society for Artificial Intelligence

- 2022** Acquires shares of VarioSecure, Inc. through third-party allotment and makes it a consolidated subsidiary
Acquired shares of StrategIT Corporation and made it a consolidated subsidiary.
Moved to the Tokyo Stock Exchange Prime Market
- 2021** Capital and business alliances with VarioSecure
- 2019** Listed on the First Section of Tokyo Stock Exchange (TSE)
- 2018** Listed on Tokyo Stock Exchange (TSE) Mothers
Capital and business alliance with Netmarble Games Corporation
- 2017** Capital and business alliances with Takenaka Corporation and Koei Tecmo Games
- 2016** JVA2016 Small and Medium Enterprise Award
Capital and business alliance with Bandai Namco Entertainment
- 2013** Shogi AI, developed by engineers who was member of HEROZ at that time formerly with HEROZ, defeated a shogi professional
- 2012** Launched mobile app, "Shogi Wars"

Director/Officer



Representative Director Co-CEO
Takahiro Hayashi

Graduated from Waseda University
Joined NEC as a technology engineer
Experience at IT strategy division, business planning division
Founded HEROZ



Representative Director Co-CEO
Tomohiro Takahashi

Graduated from Waseda University
Joined NEC as a technology engineer
Experience at Business Planning Division, BIGLOBE
Founded HEROZ

Director CTO
Keiichi Iguchi

Graduated from Tokyo Institute of Technology
Joined NEC Central Research Labs

Operating officer CFO
Hiroya Mori

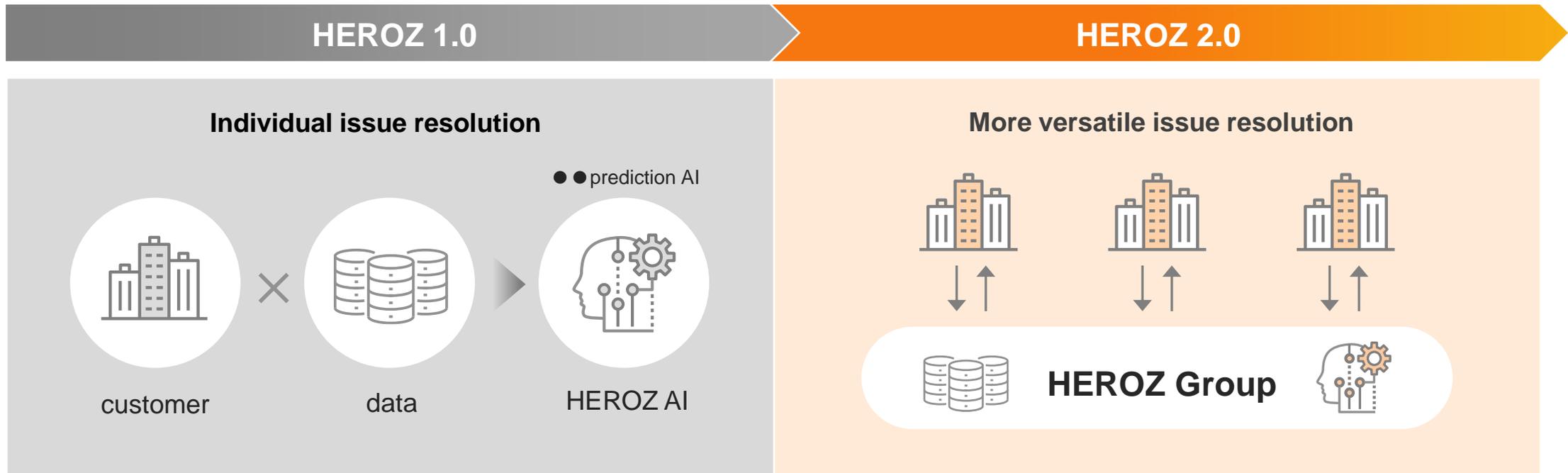
Graduated from Aoyama Gakuin University
Passed the CPA Examination
After joining an auditing firm and a consulting firm, served as General Manager of the Finance Division of PERSOL HOLDINGS CORPORATION

Operating officer CSO
Kyota Seki

Graduated with a Master's degree from the University of Tokyo
Joined Panasonic Corporation and Deloitte Tohmatsu Consulting G.K.
Involved in projects such as new business strategy development

Creating the future through artificial intelligence (AI) revolutions

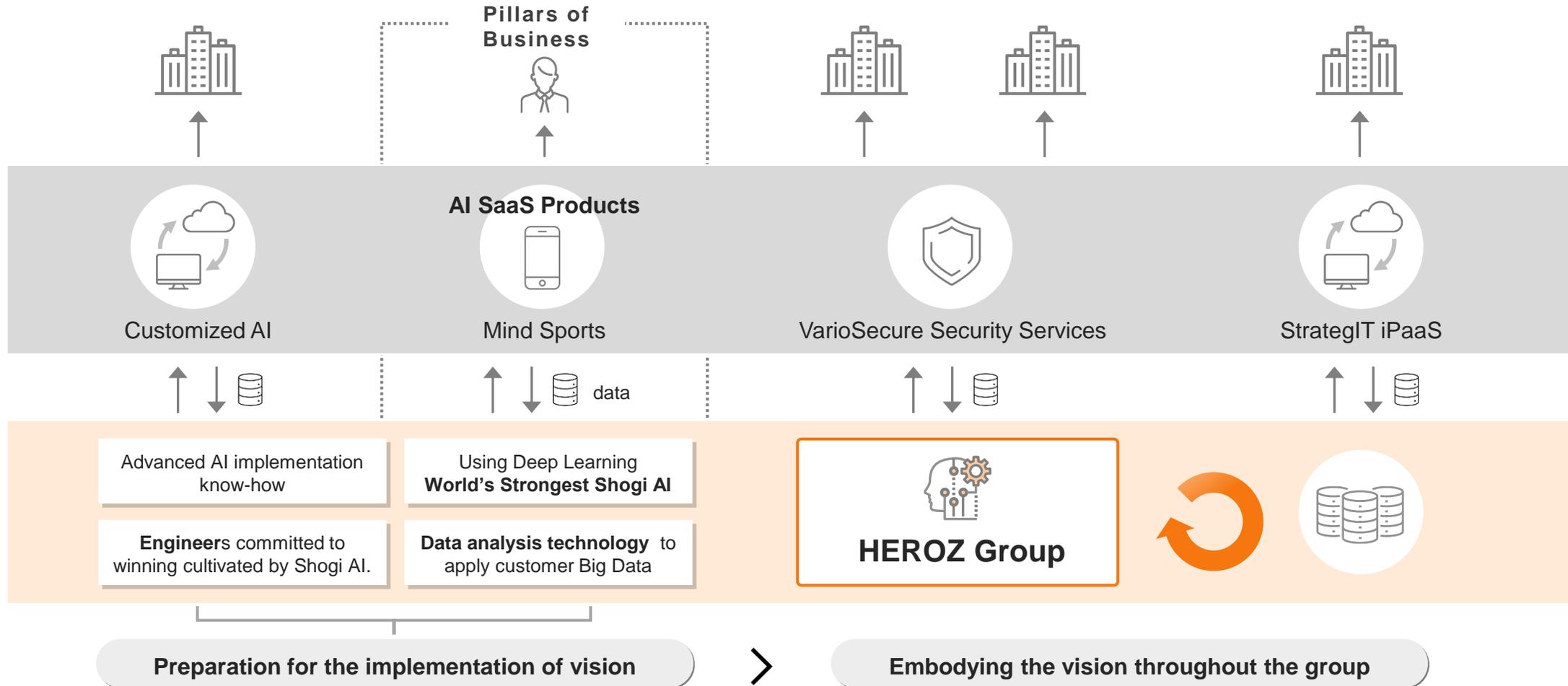
- Based on the knowledge gained from our experience in solving individual customer issues, we will aim for SaaS-type business management driven by intelligence such as our data utilization and AI in the future. (HEROZ 2.0)



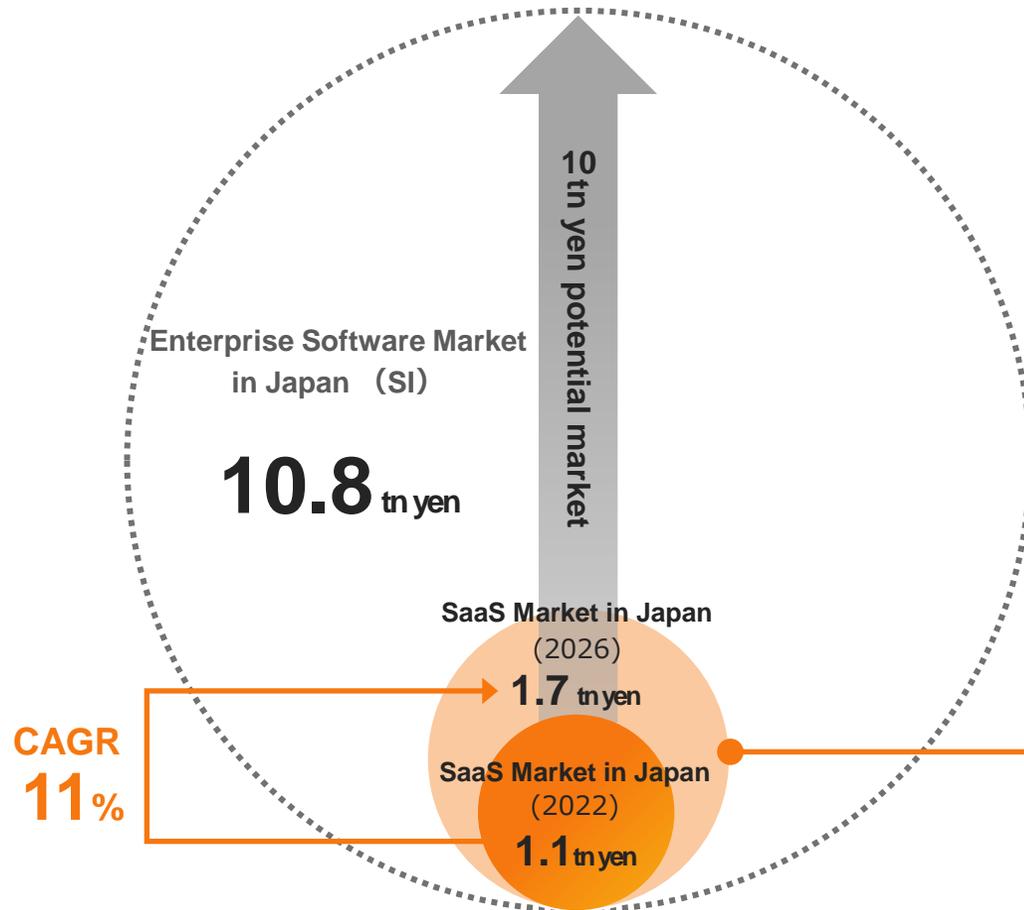
We will expand AI to a wider range of society by realizing intelligent SaaS, utilizing the core technology of algorithm and AI development cultivated through Shogi AI, and the advanced know-how accumulated through solving individual problems.

Overall Group Strategy : AI SaaS

- We will evolve the products of our company and group companies into more intelligent data-driven software by making the most of our accumulated expertise in advanced AI implementation and our strength as an engineering group.



- While the SaaS market in Japan is expected to grow steadily, there is still room for further penetration.
- To reach the approximately 10 trillions yen potential market, it is necessary to grasp the trends in the Japanese SaaS market.



Our view of future trends in the SaaS market

Diversification of needs

Diversifying market needs will accelerate SaaS adoption, and increase demand for operational expertise

Integration with legacy systems

For the foreseeable future, the integration of on-premise and cloud systems is inevitable, and the transition to zero-trust security will be done in phases.

Need for integrated management

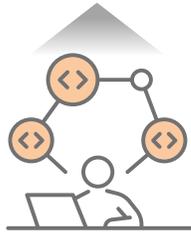
Multiple SaaS deployments increase the burden of system management and operations

By resolving trends that could be barriers to SaaS adoption through technology, we aim to materialize a latent market.

Issue hypothesis behind the trend

Diversification of needs

- Rapid changes in the business environment have led to diversification of issues and circumstances faced by customers.
- Many high-level IT professionals are unevenly distributed among SIs and cannot promote implementation and operation customized to the specific needs of each company.



Advanced AI implementation know-how

Integration with legacy systems

- Traditional perimeter defenses are reaching their limits as remote work and cloud adoption accelerate.
- Especially, small and medium-sized enterprises (SMEs), where "one-person information systems" is an issue, are unable to respond to recent security trends such as Zero Trust.

Security



Machine resources to increase the value of the product

Need for integrated management

- Handling multiple SaaS is becoming the norm, and management costs are becoming bloated.
- Therefore, there is a need for a migration service to ensure consistency and centralized management of information managed within each SaaS.

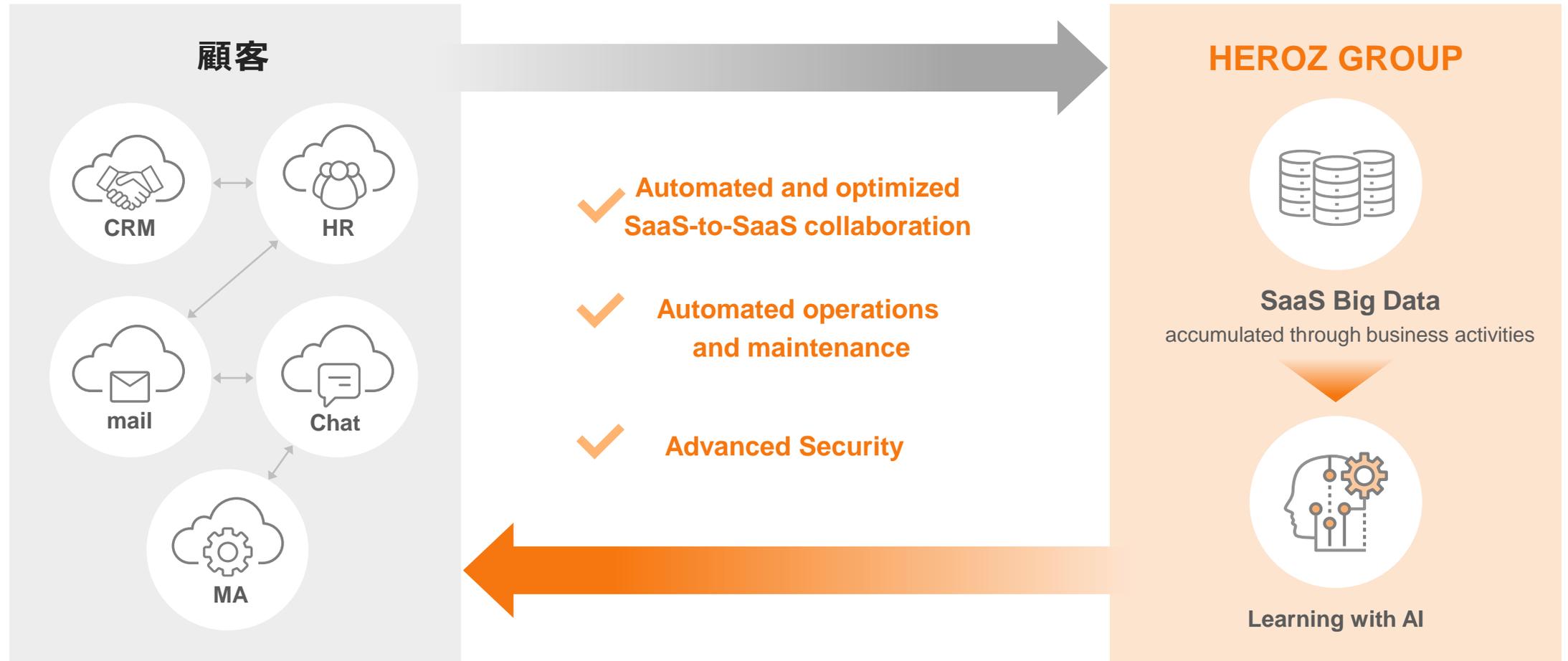
iPaaS



Products of our group companies

What we think AI SaaS should be like

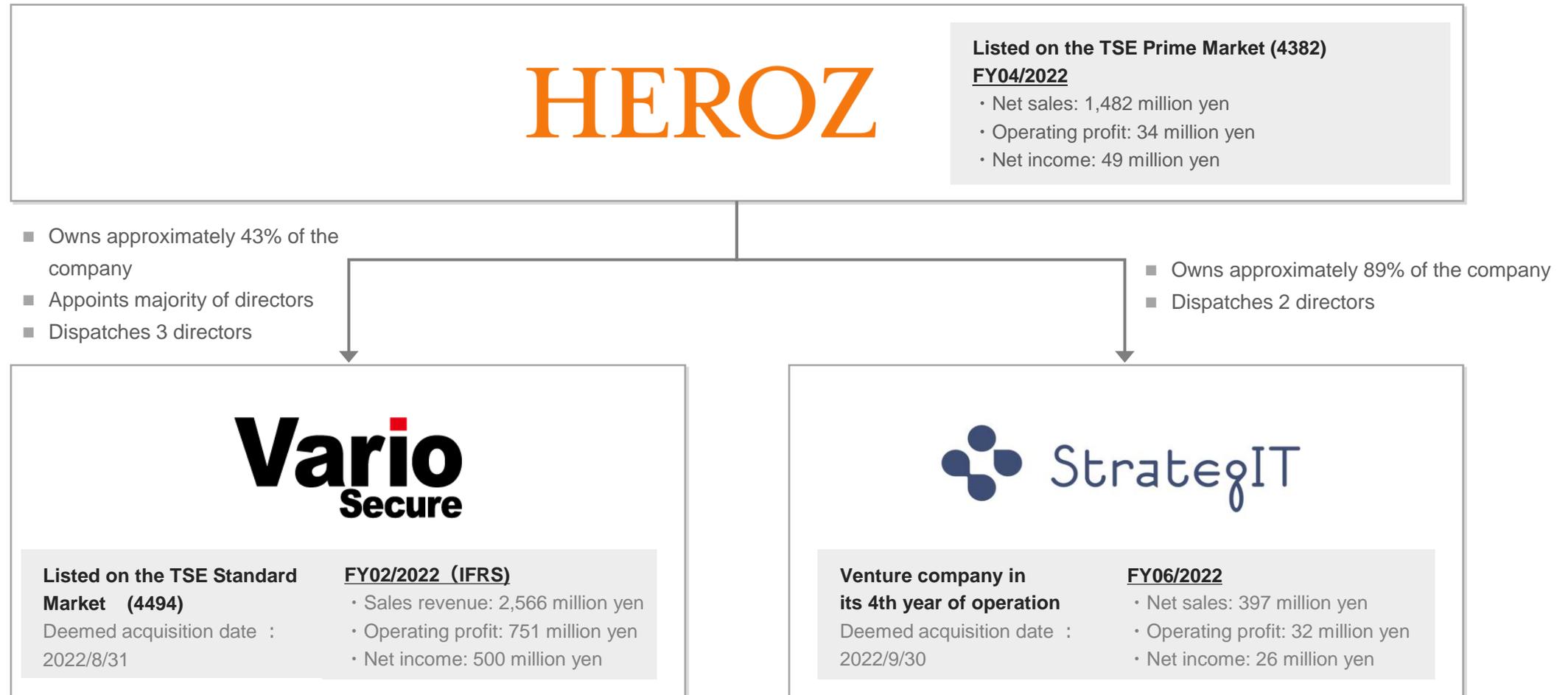
We will support the provision of the ideal SaaS usage environment required by our clients by making full use of our accumulated know-how and technology.



03

Group Structure

- With the consolidation of VarioSecure Inc. and StrategIT Inc. as consolidated subsidiaries, we have shifted to the group management structure.
- Total net sales of the three companies are approximately 4.5 billion yen(sum of the most recent results).



Segment	AI/DX Service			AI Security Service
	BtoC	BtoB		
Business Contents	 <p>Shogi SaaS business for individuals, including "Shogi Wars," utilizing AI and other technological capabilities that won the World Computer Shogi Championship.</p>	 <p>Provide solutions to customer issues through data analysis and AI development. Developing AI that can be utilized in practical operations for a wide variety of customers.</p>	 <p>Support for SaaS implementation and development of systems that integrate APIs between SaaS. Selling API applications on the app market.</p>	 <p>Managed security and integration services for secure Internet use, primarily for small and medium-sized businesses.</p>
Main KPI	<p>Recurring Revenue</p> <ul style="list-style-type: none"> ● MAU※1 ● Billing rate ● MPU※2 ● ARPPU※3 	<p>Recurring Revenue and Solution revenue</p> <ul style="list-style-type: none"> ● Recurring Revenue Ratio ● number of customers ● number of employees ● utilization rate/unit cost ● revenue per employee 	<p>Recurring Revenue and Solution revenue</p> <ul style="list-style-type: none"> ● number of customers ● number of employees ● utilization rate/unit cost ● revenue per employee ● number of apps acquired/churned ● ARPPU※3 	<p>Recurring Revenue</p> <ul style="list-style-type: none"> ● number of customers ● churned ● revenue per customer

※1 MAU : Monthly Active User
 ※2 MPU : Monthly Paid User
 ※3 ARPPU : Average Revenue Per Paid User

04

FY04/2023 3rd Quarter Performance (Consolidated)

Performance Indicators for Business Profitability

EBITDA

- We have set EBITDA, a measure of cash generation, as a key performance indicator and aim to sustainably increase corporate and share value through EBITDA growth.
- Formula: Operating profit + amortization and other non-cash expenses (amortization of goodwill, security deposits, etc.)
- Years of depreciation
 - Investment in servers for machine learning: Mainly 5-year useful life and declining-balance method
 - Amortization period of goodwill (amount)
VarioSecure, Inc. 14 years (2,179 million yen) ,StrategIT, Inc. 9years (219 million yen)

Performance Indicators for AI SaaS Business

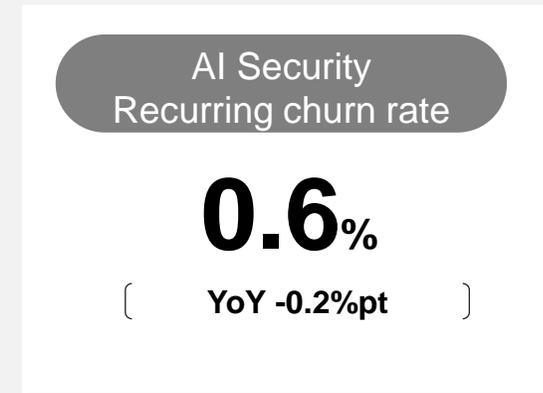
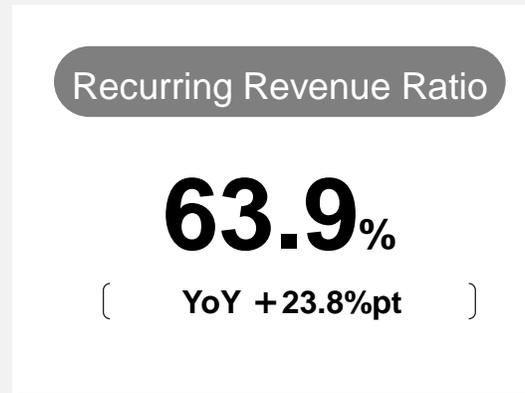
ARR
Recurring Revenue Ratio
Churn rate

- We intend to address more generic problem solving with AI SaaS as our group strategy (realization of HEROZ 2.0).
We will focus our management efforts on the following indicators that are important to our SaaS business model.
- ARR (Annual Recurring Revenue)
An important indicator essential for understanding the growth and profitability of SaaS businesses. Estimated as 12 times the last month of the quarter.
- Recurring Revenue Ratio
Indicator of ongoing sales that can be booked on a regular monthly basis.
- Churn rate
The churn rate of existing customers is an important indicator of the stability of the above recurring sales.

HEROZ Group Consolidated (cumulative Q3)



AI SaaS KPI



* Recurring Revenue is the sum of HEROZ's BtoB recurring sales and BtoC subscription sales, VarioSecure's managed security services sales, and StratiglT's subscription sales and maintenance sales.

** Recurring churn rate is the churn rate for managed security services in the AI Security service.

Performance Overview (May 2022-January 2023)

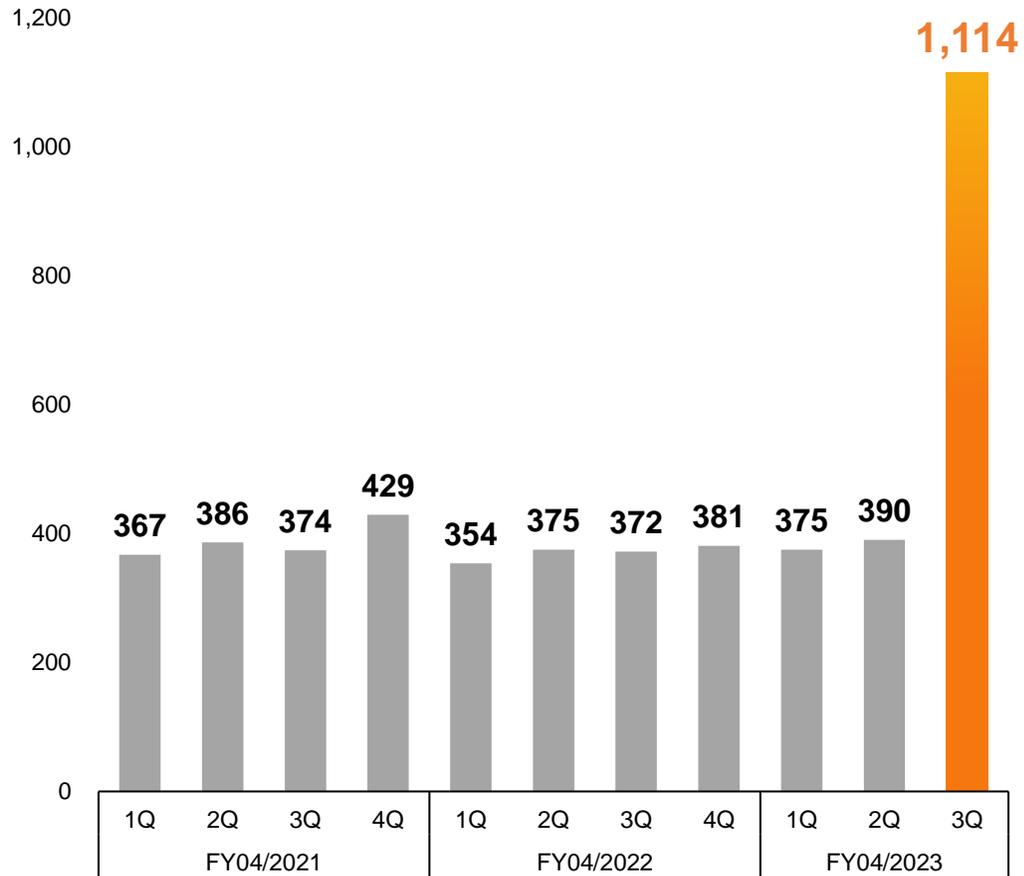
- Net sales totaled 1,879 million yen, growing. (+70.7%, YoY).
- EBITDA grew sharply to 352 million yen, (+218.7%, YoY) due to improved profitability of existing businesses and the benefits of M&A.

(Units: JPY millions)	FY04/2022 3 rd Quarter Actual (Non-Consolidated)	FY04/2023 3 rd Quarter Actual (Consolidated)	YoY	Earnings Forecast (Announced on December 9, 2022)	Progress against Forecast
Net sales	1,101	1,879	+70.7%	2,900	64.8%
EBITDA	110	352	+218.7%	550	64.2%
Operating Profit	-3	195	-	250	78.4%
Ordinary Profit	-0	161	-	200	80.8%
Net Income (loss) attributable to owners of the parent	-2	-518	-	-590	-

Key Performance KPIs (by Quarter)

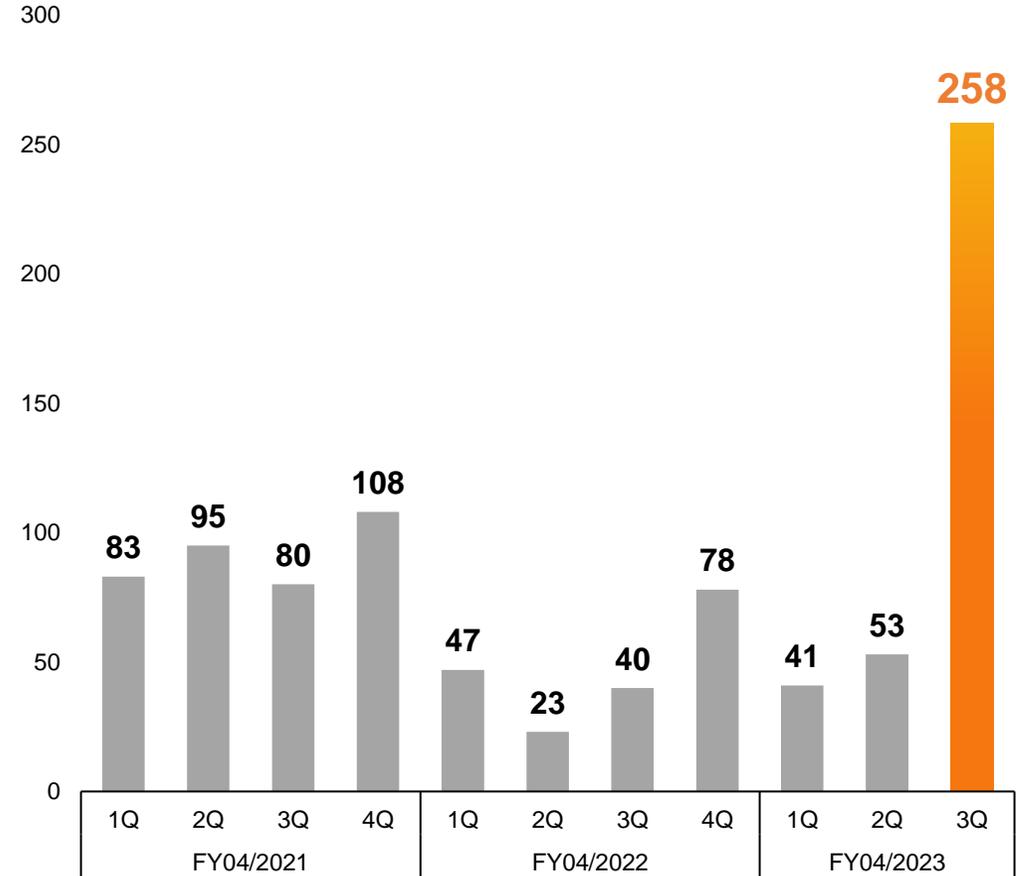
Net Sales

(Units: JPY millions)



EBITDA

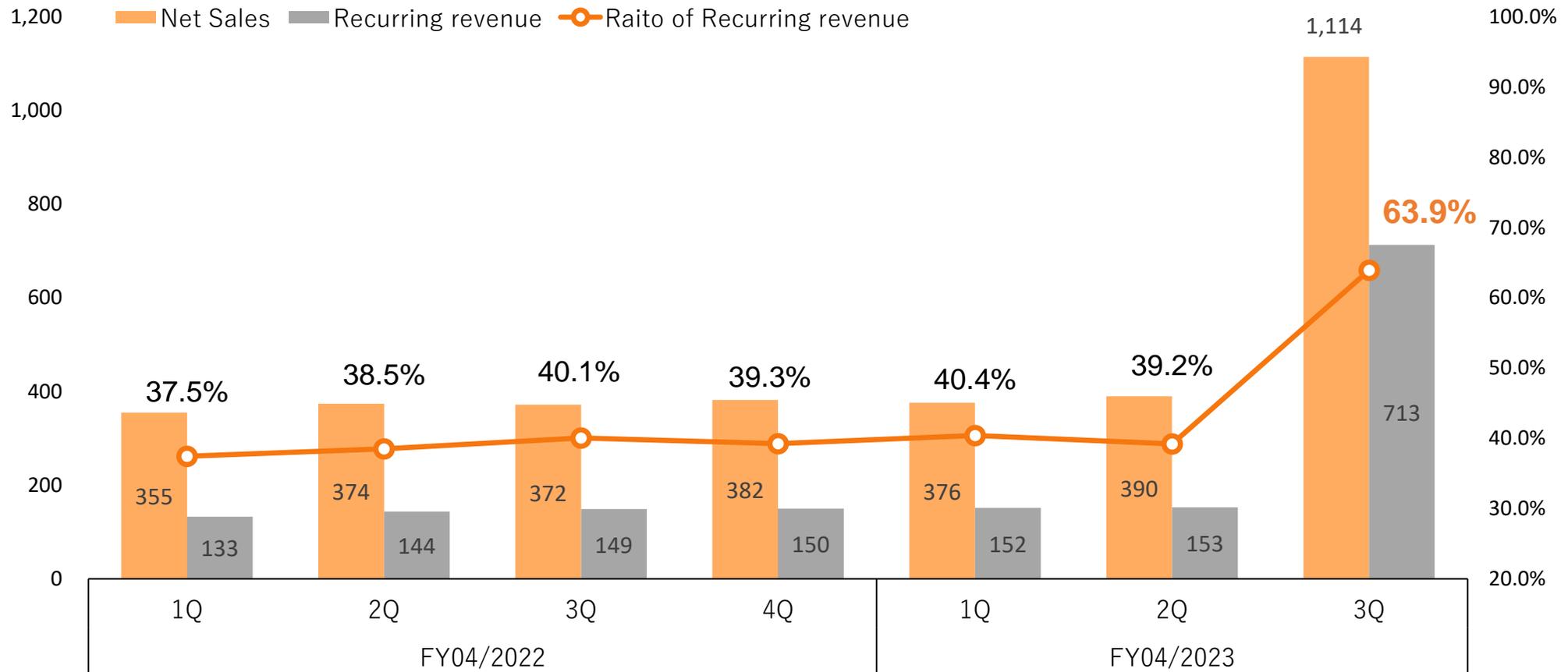
(Units: JPY millions)



Recurring Revenue Ratio increased significantly

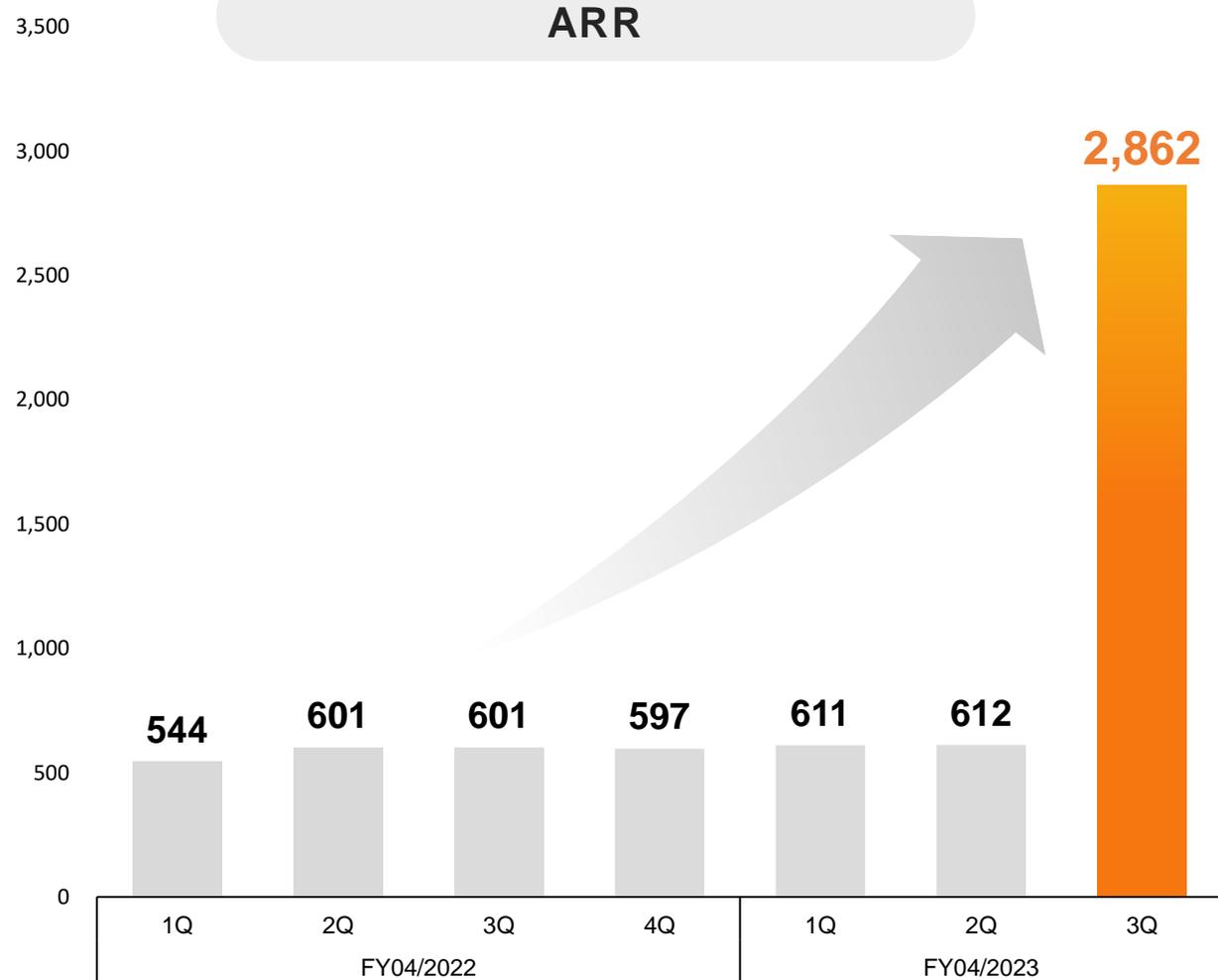
- With the AI SaaS strategy, Recurring Revenue Ratio will be emphasized in the future in pursuit of sales quality.
- Recurring Revenue Ratio rose to 63.9% this quarter following the consolidation of VarioSecure and StrategIT as group companies.

(Units: JPY millions)



ARR also increased significantly to 2.8 billion yen

(Units: JPY millions)



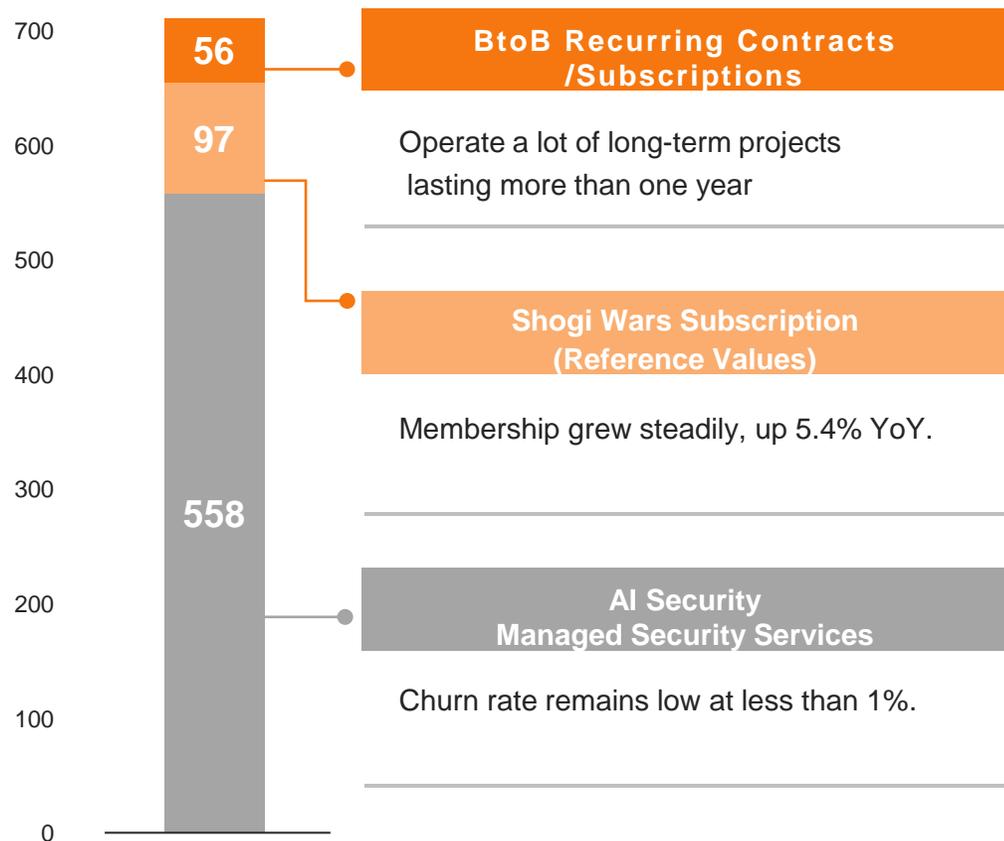
ARR grows significantly

YoY growth **376.4%**
ARR for the group **2,862mil yen**

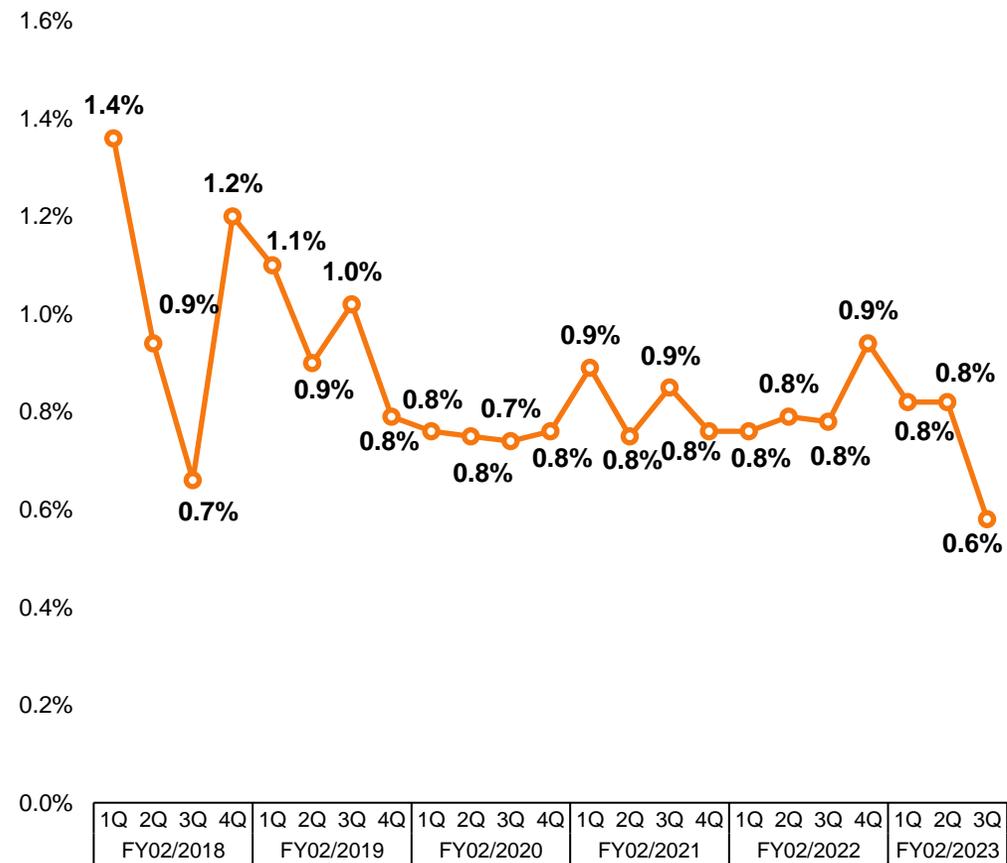
- Recurring Revenue is the sum of BtoC and BtoB subscription revenue and BtoB recurring revenue in AI/DX services, and management security service revenue in AI Security services.
- In management security services, the company continues to enjoy a high share of the market for SMEs, due to its consistent support system.
- Going forward, ARR will achieve growth through the introduction of AI into security services and the development of SaaS-linked applications.

Breakdown of Recurring Revenue for this Quarter

(Units: JPY millions)



AI Security : Churn Rate Trends for Managed Security Services



※ The above graphs are based on VarioSecure's discloser materials.

Performance by Segments (May 2022-January 2023)

- AI/DX services continue to grow at +11.9% YoY ,also, EBITDA margin at 37.8%, high profitability
- AI Security service is deployed by VarioSecure and maintains high profitability with an EBITDA margin of 43.7%.

(Units: JPY millions)		FY04/2022 3 rd Quarter Actual (Non-Consolidated)	FY04/2023 3 rd Quarter Actual (Consolidated)	YoY (Consolidated)	YoY (Excluding M&A impact)
AI/DX service	Net Sales	1,101	1,232	+11.9%	+5.5%
	Segment Profit	-3	370	-	-
	EBITDA	110	466	-	-
	EBITDA Margin	10.1%	37.8%	-	-
AI Security service	Net Sales		647		
	Segment Profit		221		
	EBITDA		282		
	EBITDA Margin		43.7%		
Segment Profit adjustment	Segment Profit		-396		

※ The Company has changed its business segments from the third quarter of the current fiscal year. The segment income adjustment of -396 million yen represents corporate expenses that are not allocated to each segment.

For the previous year's figures, corporate expenses are included in AI/DX services. Therefore, year-on-year comparisons are not shown for Segment profit, EBITDA, and EBITDA margin.

- This segment includes BtoC, mainly Shogi Wars, BtoB, which handles AI development for customers, and SaaS implementation and SaaS-linked development business, which is being developed by StrategIT.

(Units: JPY millions)

	FY04/2023 3 rd Quarter Actual (May/2022-Jan/2023)	
Net Sales	1,232	Recurring Revenue Ratio 37.2%
Operating Profit	370	Operating Margin 30.0%
EBITDA	466	EBITDA Margin 37.8%

High profitability with EBITDA margin of 37.8%.

- Shogi Wars continued to see solid revenue growth from the previous quarter. Continue to reach out to a wide range of users with the aim of maximizing the Shogi population.
- BtoB business at HEROZ saw an increase in the number of projects in highly specialized entertainment-related fields. Continued to focus on improving business efficiency in each industrial area through AI.
- StrategIT aims to grow recurring sales by strengthening the revenue base of its SaaS-linked apps and other products.
- Developing AI-based SaaS product collaboration to create synergies among group companies.

- This segment is developing the business of implementing the HEROZ Group's AI into the security business developed by VarioSecure, which joined the group this fiscal year.

(Units: JPY millions)

	FY04/2023 3 rd Quarter Actual (May/2022-Jan/2023)	
Net Sales	647	Recurring Revenue Ratio 86.3 %
Operating Profit	221	Operating Margin 34.2 %
EBITDA	282	EBITDA Margin 43.7 %

Recurring sales ratio is high at 86.3%.

- In managed security services, differentiate the company with value-added features in addition to a stable sales base.
- Specifically, we will provide additional functions that are in high demand and substantially revamp the UI.
- In addition, we will expand our business to adjacent businesses, leveraging our high market share for small and medium-sized enterprises.
- Specifically, the company will expand sales of EDR products for the remote work era by developing distributors and provide anti-ransomware solutions mainly to the medical industry.

Balance Sheet (as of January 31, 2023)

- The cash and deposits currently held by the Company will be gradually appropriated for investments to realize the Company's mid- to long-term growth strategy.
- With the consolidation of VarioSecure and StrategIT into the group, there is a goodwill balance of 2.3 billion yen in intangible assets, which will be amortized in the future.

Units: JPY millions	As of 4/30/2022 (Non-Consolidated) (A)	As of 1/31/2023 (Consolidated) (B)	Increase and decrease (B-A)
Current Assets	3,959	4,867	908
Cash and deposits	3,660	3,574	-85
Fixed Assets	2,675	3,744	1,069
Property, plant and equipment	260	271	10
Intangible assets	25	2,673	2,648
Investments and other assets	2,390	799	-1,590
Total Assets	6,635	8,612	1,976
Current Liabilities	194	825	630
Fixed Liabilities	—	1,679	1,679
Net Assets	6,440	6,106	-333

05



Reference Materials

Chess AI



Deep Blue ('97) defeated a professional Chess player

IBM

Shogi AI



AI developed by our engineers who was member of HEROZ at that time defeated a professional Shogi (Japanese Chess) player ('13)

HEROZ

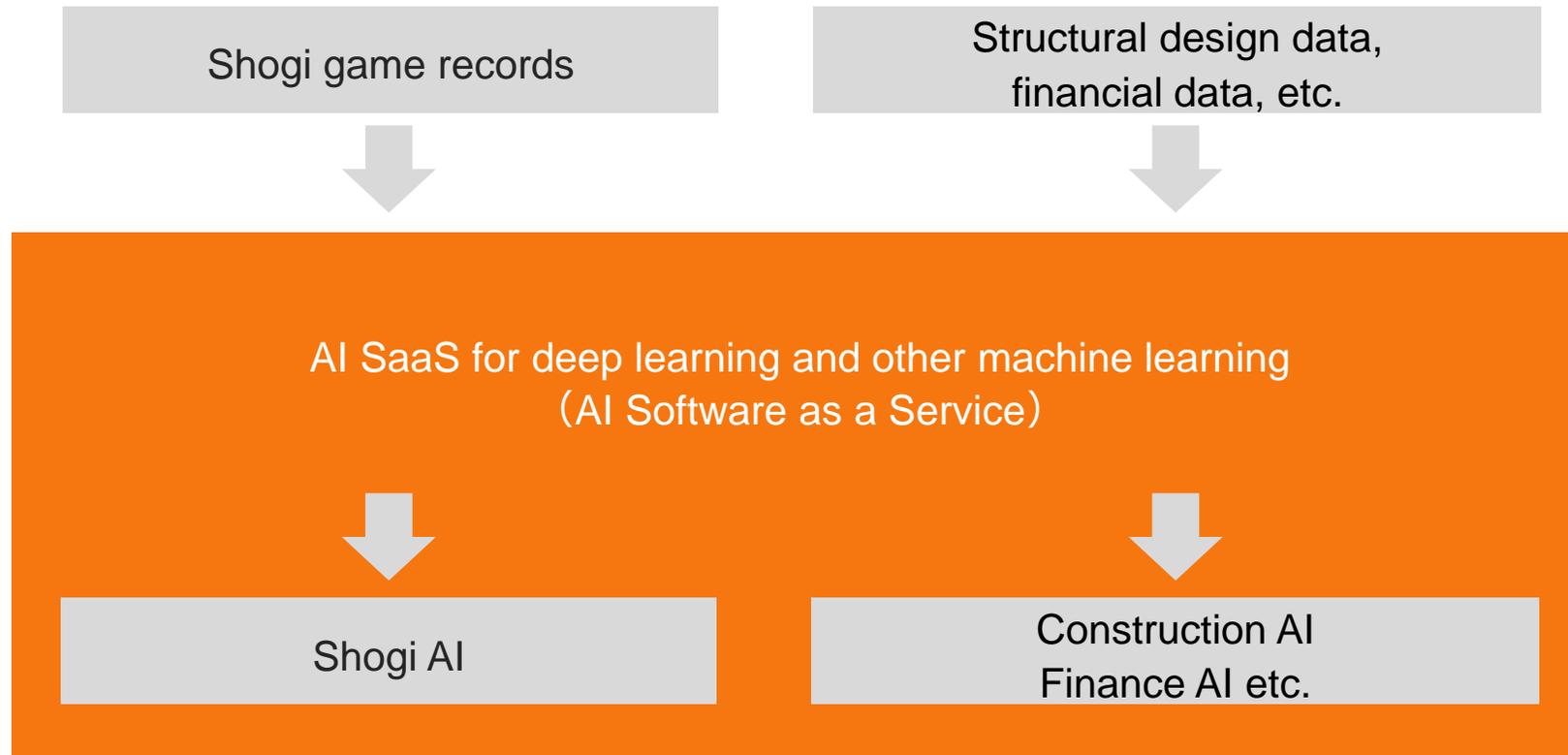
Go AI



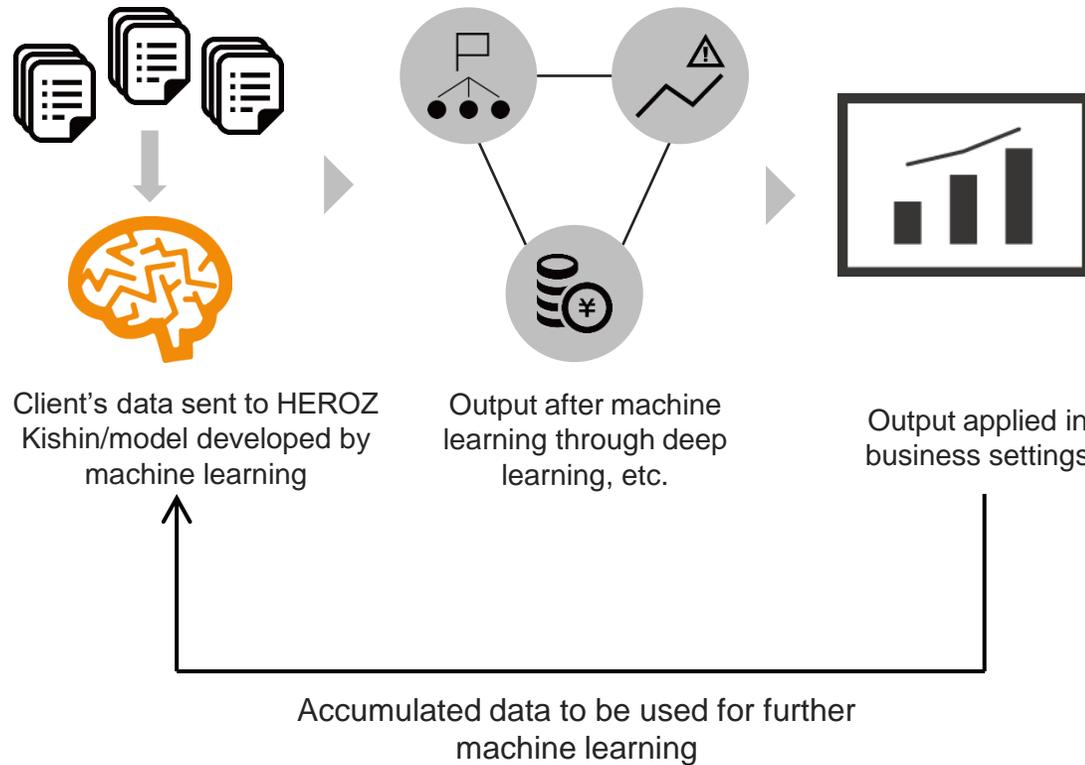
Google acquired Deep Mind ('14) AlphaGo, developed by Deep Mind, defeated a professional Go player ('16)

Google

Developing our AI construction capabilities cultivated through machine learning using deep learning of vast Shogi game data in the construction, finance, entertainment, and other fields



AI SaaS : AI Software as a Service is
“Business model that provides models built by machine learning/deep learning as a service”



Output precision increases through repeated machine learning

- Research/develop Shogi AI
- Standardize AI technology accumulated through shogi AI
- AI SaaS (AI Software as a Service)
- Establish an infrastructure which allows HEROZ to provide AI services efficiently to solve various challenges in various industries just by changing input data
- Provide comprehensive AI services with massive servers
- Achieve stable, sustained earnings and high switching costs

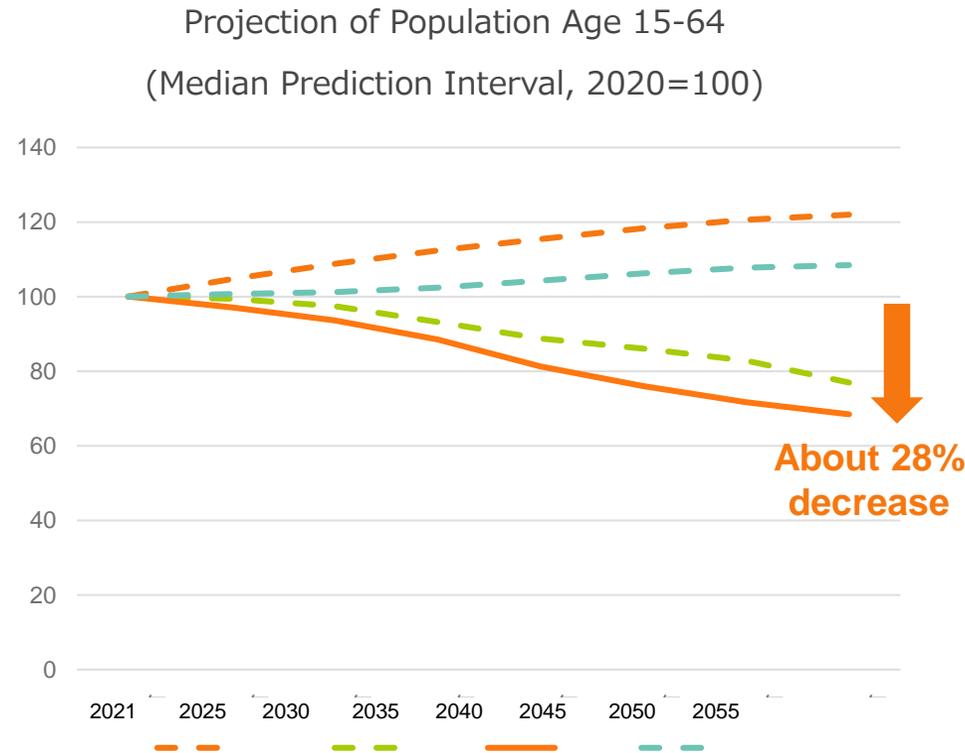
Earning structure: initial setup fee and ongoing fees

- We believe there is also significant potential demand for enhancing operational efficiency through AI in the construction industry, which is one of our areas of focus



- We entered into a capital and business alliance with Takenaka Corporation in 2017 and became a member of i-Construction. We aim to create the industry standard AI for the construction industry, enhancing productivity and creating a new, attractive construction site

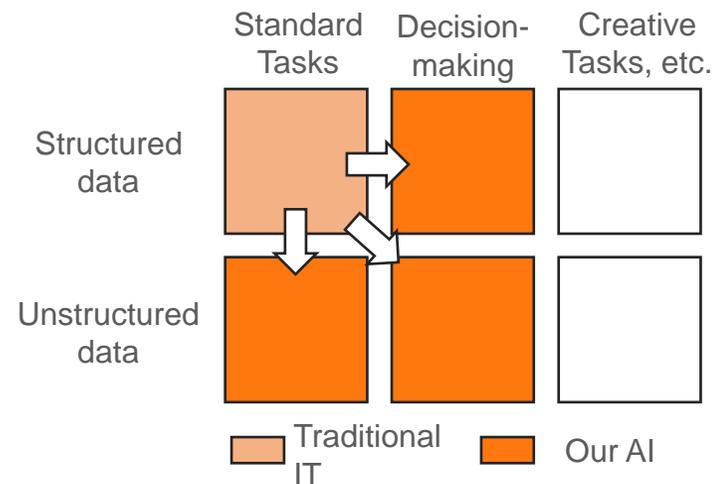
- Potential AI demand in Japan can be expected to be among the largest worldwide, as the working population is expected to decrease significantly going forward



- When defining the working population as those aged 15-64, the world average is forecasted to increase by about 12% from 2020 to 2035 and by about 21% from 2020 to 2055. On the other hand, the working population is expected to decrease by about 11% and about 28% during the same periods, respectively
- Based on such forecasts, the Japanese working population will show the largest decrease among leading GDP nations

Source: Prepared by HEROZ based on United Nations, World Population Prospects, The 2019 revision

- Domestic DX (digital transformation) is expected to accelerate due to the future decrease in the working population as well as the impact of the COVID-19 pandemic
- AI allows for DX of a wide variety of operations including those involving decision-making, which were previously considered difficult to automate



- DX will begin with standard tasks based on structured data and is expected to expand to decision-making and tasks which utilize unstructured data
- Our AI can automate a wide variety of operations including those requiring decision-making. We have also achieved DX for unstructured data, which were traditionally considered difficult for DX
- We are promoting DX and building a track record in areas including construction, finance, and entertainment

Overview of VarioSecure Inc.

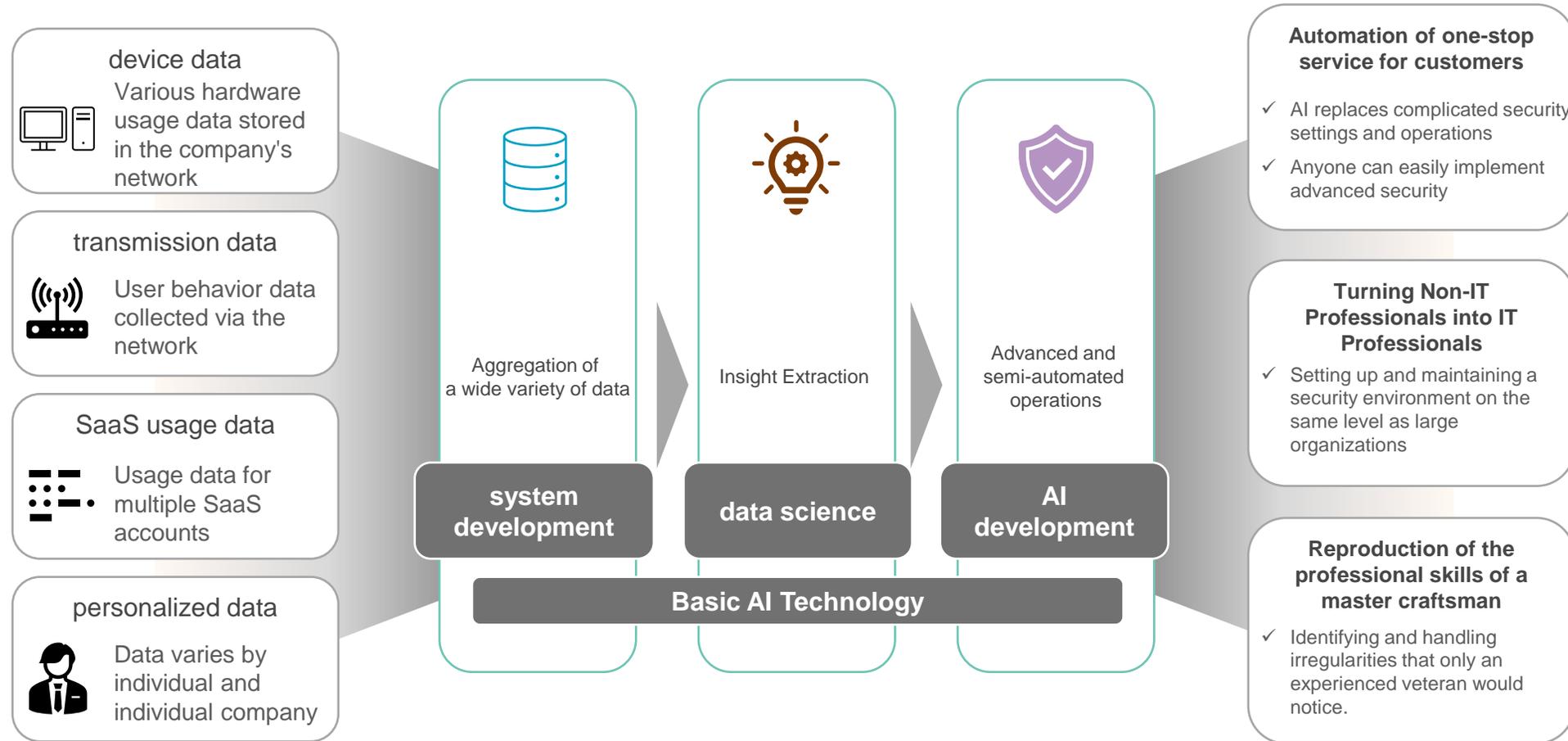
Name	VarioSecure Inc.
Established	June 2001
capital	749 million yen
Employees	75
Performance (FY02/2022)(IFRS)	Sales revenue: 2,566 million yen Operating profit: 751 million yen Net income: 500 million yen
Head Office Location	Sumitomo Corporation Nishiki-cho Building 5F, 1-6 Kanda Nishiki-cho, Chiyoda-ku, Tokyo
Osaka Office Location	1-2-19 Kitahorie, Nishi-ku, Osaka-shi, Osaka
Fukuoka Office Location	1-12-17, Hakataekihigashi, Hakata-ku, Fukuoka-shi, Fukuoka
Business	Managed Security Services Integration Services
President and Representative Director	Yoshihiko Inami
Director	Yasufumi Kajiura
Director	Satoshi Yamamori
Director	Hideko Iseo
Director	Takahiro Hayashi
Director	Keiichi Iguchi
Director	Hiroya Mori
Outside Director	Masataka Shiba
Director and Audit Committee	Kenji Sakai
Director and Audit Committee	Hideo Fukai
Director and Audit Committee	Hidetaka Nishina
Web	https://www.variosecure.net/
Certification	ITSMS (ISO20000) 、 ISMS (ISO27001) 、 privacy mark



(As of November 30, 2022)

Toward the Realization of an AI Security Company

Provide customers with new safety and security in the age of zero-trust through the power of AI by utilizing a variety of corporate data.
Supporting digital transformation by supporting corporate safety and security from the ground up



AI Security Company's Growth Strategy

We will promote the following items jointly with VarioSecure to realize AI Security Company.

Realization of
AI Security Company

- Mutual provision of management resources, including our AI technology and VarioSecure's industrial domain knowledge and data
- Achieving an AI Security Company through Collaboration in New Fields

Service expansion
into the zero-trust area

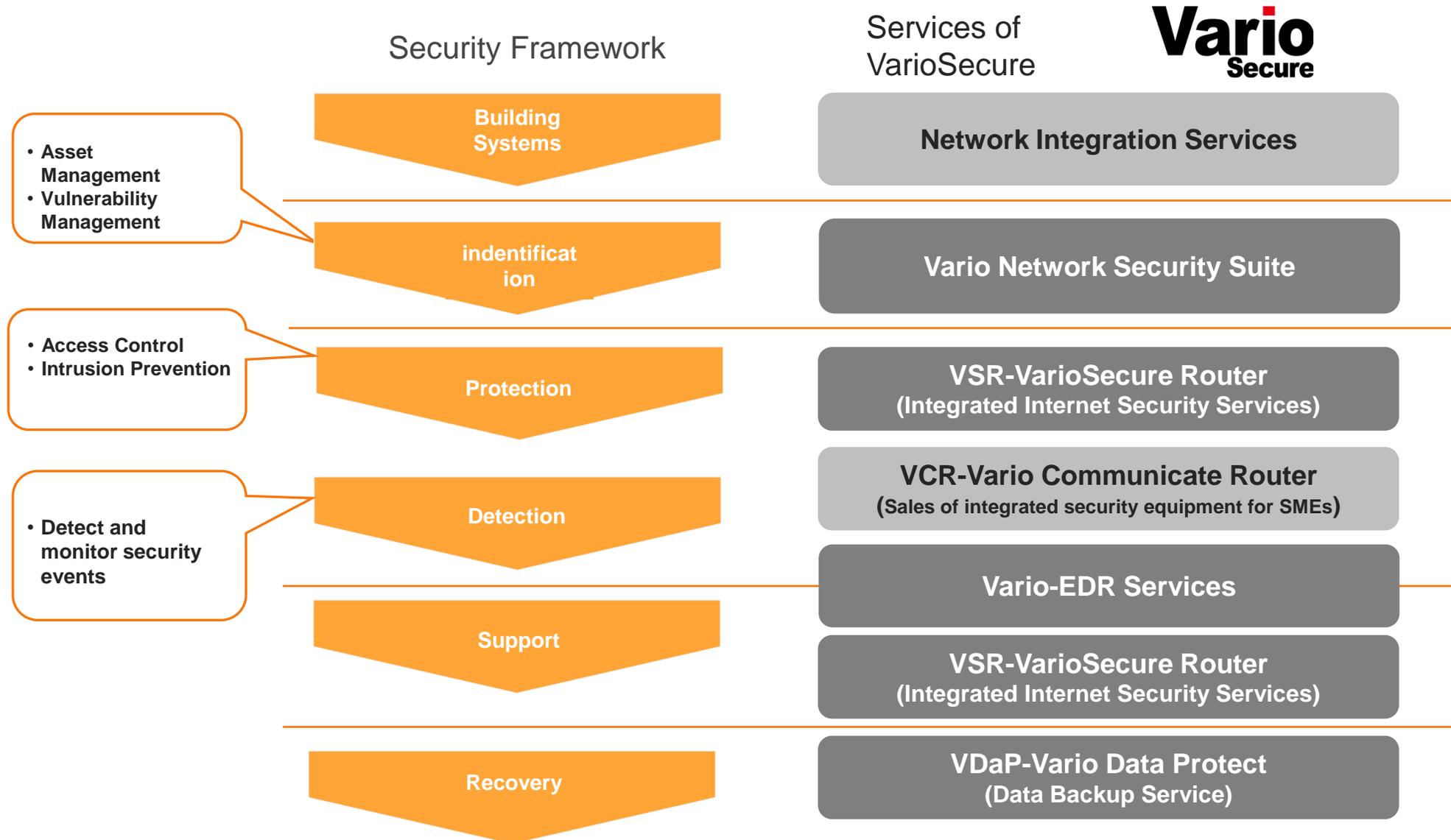
- Promote the use of AI in our managed security services and the expansion of our services into the zero-trust area

Business system innovation
through the utilization of AI.

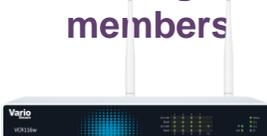
- Promote the use of AI in the backyard (core systems)
- Utilize AI technology for labor saving, efficiency improvement, and sales promotion based on such utilization

(Reference) Business Overview

- Services provided by VarioSecure

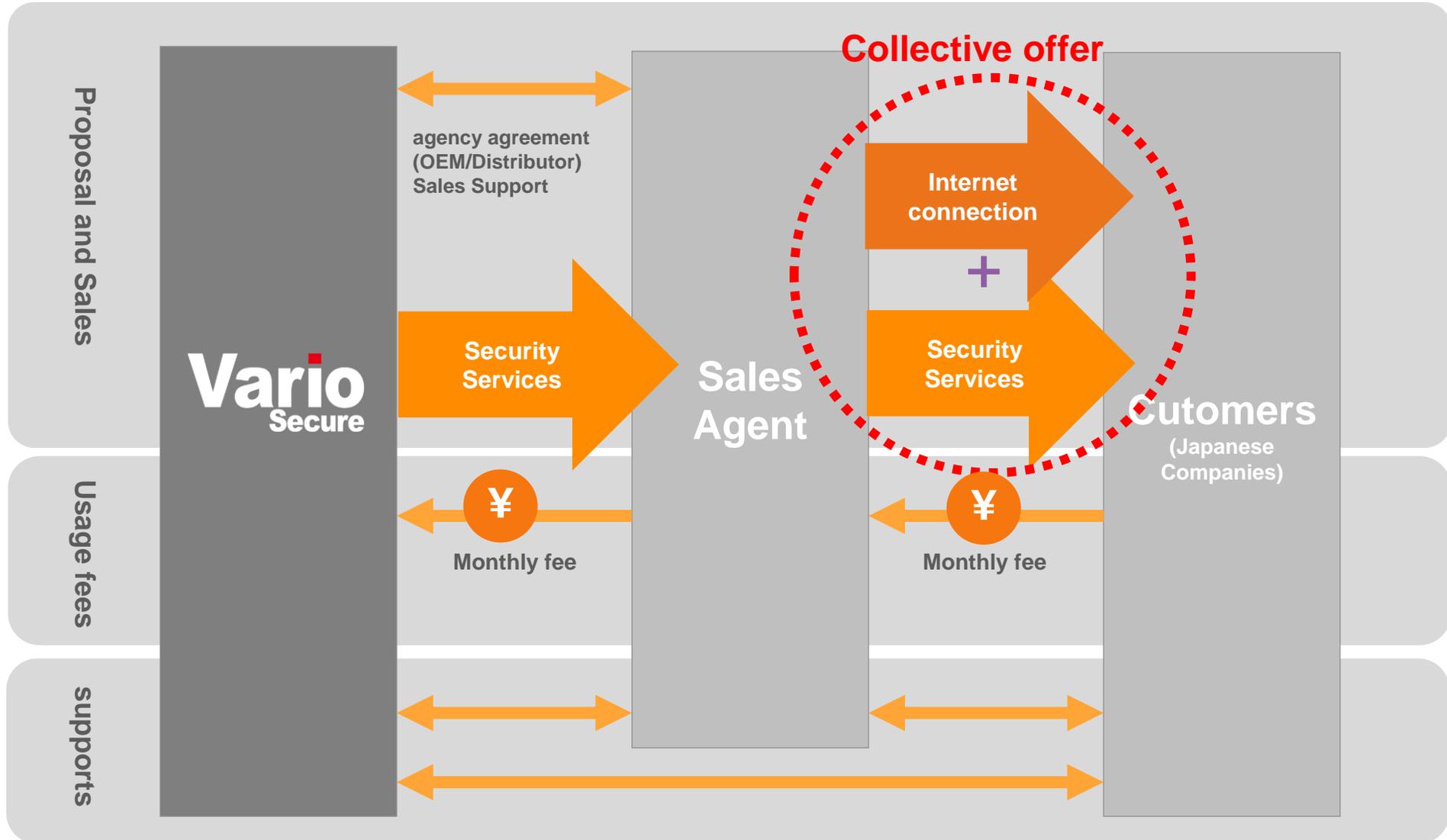


(Reference) Providing services that make Internet use safe and comfortable

Service Category	Managed Security Services	Integration Services
Service Form	Installation support, operation and maintenance 24 hours/365 days, nationwide in Japan	Equipment sales and construction
Revenue Model	Recurring type (monthly charge)	one-time fee-type
Service Content	<p>① Integrated Internet Security Services (Managed type)</p> <p>Protecting Internet Entrances</p>  <p style="text-align: right;">VariOS</p> <p>Dedicated equipment for managed security services VSR—VarioSecure Router</p>	<p>① Sales of integrated security equipment for SMEs (Sales type)</p> <p>For organizations with less than 50 members</p>  <p>Integrated security equipment for SMEs VCR—VarioCommunicate Router</p>
	<p>Data retention in case of emergency</p> <p>② Data Backup Services</p>  <p>Dedicated equipment for data backup services VdP—Vario Data Protect</p>	<p>② Network Integration Services</p> <ul style="list-style-type: none"> Procurement and construction of network equipment <p>Construction of company network (wireless LAN network)</p> 
	<p>Rogue Terminal Detection, Vulnerability Management</p> <p>③ Vario-NSS(Network Security Suite)</p>  <p style="text-align: right;">VariOS Vario EDR</p>	
	<p>Assists in detecting and responding to cyber attacks</p> <p>④ Vario-EDR Services</p>	

(Reference) VarioSecure's business model

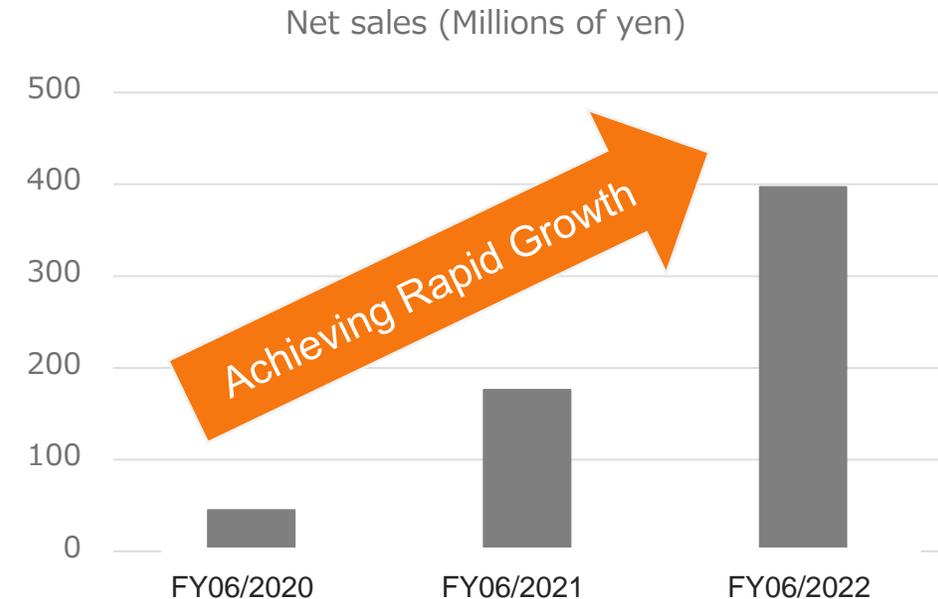
- Provided mainly as an adjunct to the Internet connection





Name	StrategIT Inc.
Establish	July,2019
Capital	74 million yen
Employees	23(excludes outsourcing)
Location	PMO Tamachi 7F, 5-31-17 Shiba, Minato-ku, Tokyo
Buisness	SaaS Solution Implementation Support SaaS API Linkage Development Service Operation of app store (SaaStainer)
President and Representative Director	Fumie Kato
Director and CTO	Yuhei Kawamoto
Director	Masaki Moriwaki (Part-time officer)
Director	Takahiro Hayashi (Part-time officer)
Director	Hiroya Mori (Part-time officer)
Web	https://www.StrategIT.jp/

Our vision is to contribute to management improvement by integrating "Strategy" and "IT"
And our mission is to bring the power of SaaS to all companies
We aim to be a company that promotes the utilization and value enhancement of SaaS



Develop various APIs (linked systems) for SaaS vendors to improve the convenience of SaaS, utilizing know-how gained through SaaS introduction consulting for BtoB.

Business model to sell developed APIs to general companies through our SaaStainer (app store)

1) Existing Services

- SaaS Implementation
SaaS Solution Implementation Support
(NetSuite, freee, Microsoft Dynamics, etc.)
- Collaborative Development
API integration development
System integration, development of linked applications
Official Apps
Apps for major SaaS solution functions
- SaaStainer
App store (SaaStainer)
Providing a platform for SaaS solution information

- Main and high-growth/high-profitability business
- Focus on mid-size projects (from 30 million yen)
- Incorporation of Microsoft Dynamics

- Developed an API system for SaaS vendors to link SaaS vendors by utilizing our know-how of SaaS implementation
- Have contacts with top SaaS listed companies ARR

- Recurring Sales Model
- Number of registered SaaStainer accounts: 1,091 companies
- Number of listed apps: 60, Number of paid apps: 18
- Pillars of future growth

2) New Products Development

- MasterHub API Platform (MAPIP)
Collaborative Platform Application

- In-house development of API integration platform application
- Provide customers with an environment that allows them to develop their own API integration

Strengths and Features with StrategIT

Holds patent for "Master Hub," a development platform that brings together all the know-how required for SaaS collaborative development

Operate "SaaStainer," an app store that provides SaaS-linked applications (recurring monthly fee model)



- Patented "Master Hub"
- Master Hub is a development platform that consolidates the know-how required for collaboration
- Development by Master Hub can achieve high quality system integration at less than half the cost of general contracted development and ensure stable operations.



- App store for services that support the continued use of SaaS
 - Linked apps listed in the app store can be easily linked now, without the need for API linking know-how
- Official Website : <https://saastainer.com/apps>
Official Twitter : <https://twitter.com/SaaStainer>

- The forward-looking statements contained in this material are based on information currently available to the Company, but are not guarantees of future performance and are subject to various risks and uncertainties. Actual results may differ from the forward-looking statements contained or deemed to be contained herein due to changes in the business environment and other factors.
- This document contains information about our company and other companies, etc., and we make no representations or warranties as to the accuracy or completeness of the information contained herein.