



Presentation Material for FY04/2024 Q2 Financial Results

December 8, 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

FY04/2024 Second Quarter Performance Summary

- **Net sales were 2,335 million yen (+205%, YoY), and EBITDA was 449 million yen (+374%, YoY), and Operating Profit was 252 million yen (+572% YoY)** in the first half of the current fiscal year.
- In the AI/DX business, **HEROZ's BtoB sales increased by 41.5% YoY only in the second quarter** due to aggressive customer acquisition activities. BtoC sales also growing on the back of the Shogi boom.
- In the AI Security business, sales grows steadily as the number of customers continues to increase.
- **Operating Profit is on track to achieve 63% of the full-year forecast.**
Full-year forecasts are expected to be attainable in terms of sales and various profits.

Initiatives for FY04/2024 Second Quarter

- Our dedicated LLM team has launched the βversion of "HEROZ ASK for Enterprise" as our first LLM-related product for enterprise companies. Continuing to develop products more suited to corporate practice in preparation for the release of a paid version
- Released "Kishin Learning", a learning service for beginner to intermediate Shogi players, in mid-October. **Membership gains were much higher than expected**, contributing to the increase in recurring revenue this quarter.

Acquisition of shares of A.I. Squared, Inc.

- On November 24, 2023, we announced **the acquisition of shares in A.I. Squared, Inc. and the conversion of AI Square into a group company.**
- In conjunction with the acquisition, the company signs a business alliance agreement with BroadBand Tower, Inc.
- We will promote AIX(AI Transformation) in the contact center domain through the contact center services provided by A.I. Squared, Inc. and HEROZ's core AI development technology and LLM utilization know-how.

02



FY04/2024 Second 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, stock compensation expense, 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 (2,180 million yen) ,StrategIT, Inc. 9years (219 million yen)

Performance Indicators for AI SaaS Business

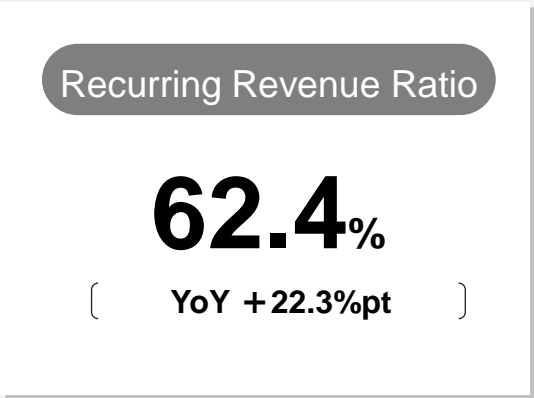
**ARR
Recurring Revenue Ratio
Churn rate**

- We intend to address more generic problem solving with AI SaaS as our group strategy.
We will focus our management efforts on the following indicators that are important to our AI 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
(FY04/2024 Q2)



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 StrategIT'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 2023-October 2023)

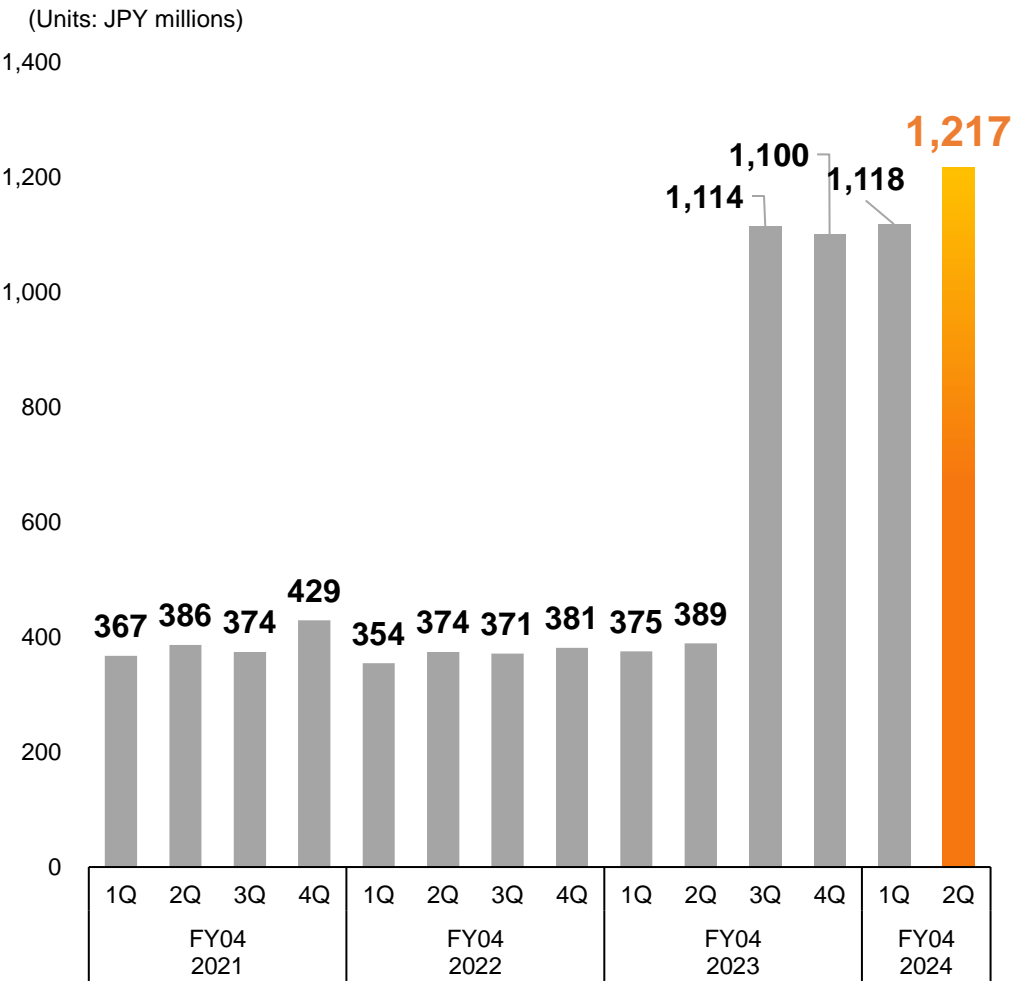
- Net sales increased significantly due to the effect of M&A and growth in both BtoB and BtoC businesses.
- EBITDA and Operating Profit are on track to meet the full-year forecasts, at 56.2% and 63.0%, respectively.

(Units: JPY millions)	FY04/2023 Q2 Results (Non-Consolidated)	FY04/2024 Q2 Actual (Consolidated)	YoY	Earnings Forecast (Announced on June 9, 2023)	Progress against Earnings Forecast
Net sales	765	2,335	+205.2%	4,800	48.7%
EBITDA	94	449	+374.3%	800	56.2%
Operating Profit	37	252	+572.1%	400	63.0%
Ordinary Profit	38	212	+451.0%	385	55.3%
Net Income (loss) attributable to owners of the parent	-513	-30	-	30	-

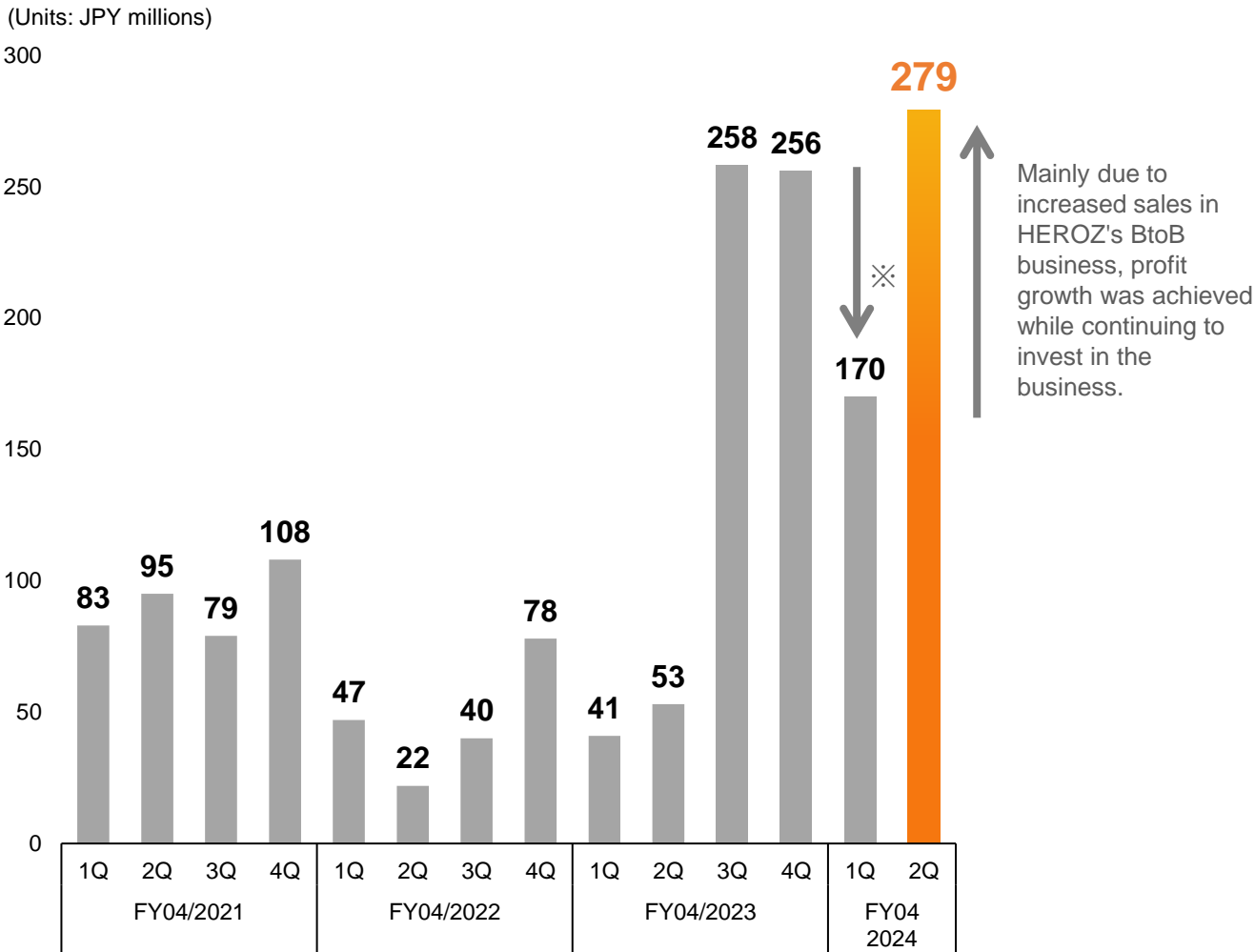
Impact of the consolidation of A.I. Square, Inc. will be disclosed in the future upon careful examination.

Key Performance KPIs (by Quarter)

Net Sales

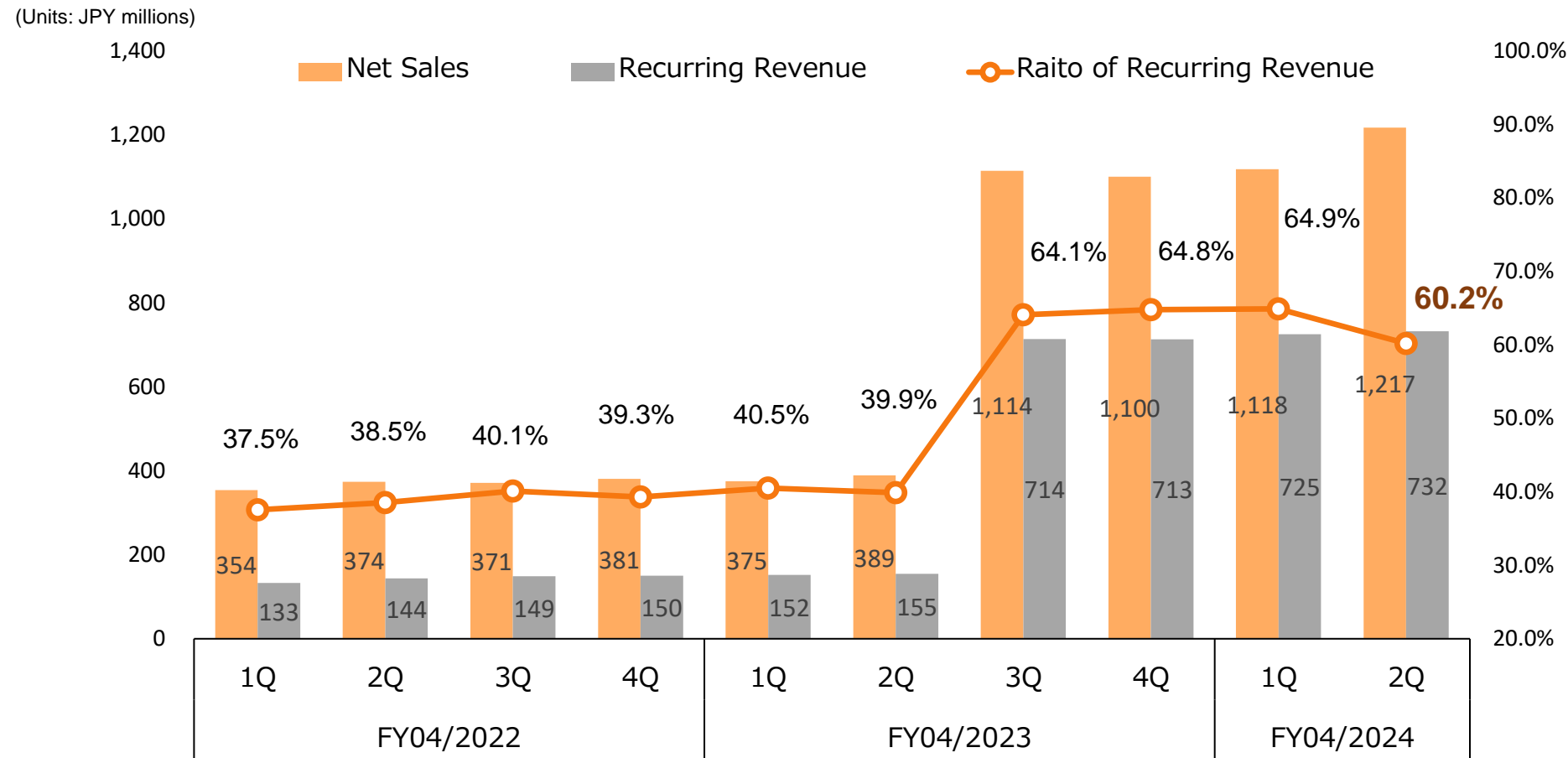


EBITDA



Recurring Revenue increased significantly

- Recurring sales continued to increase in the second quarter, although the ratio of recurring sales declined slightly due to the impact of a significant increase in solution-based sales.
- Expect to see a full-scale increase in recurring type sales as paid versions of various SaaS products are launched in the future.

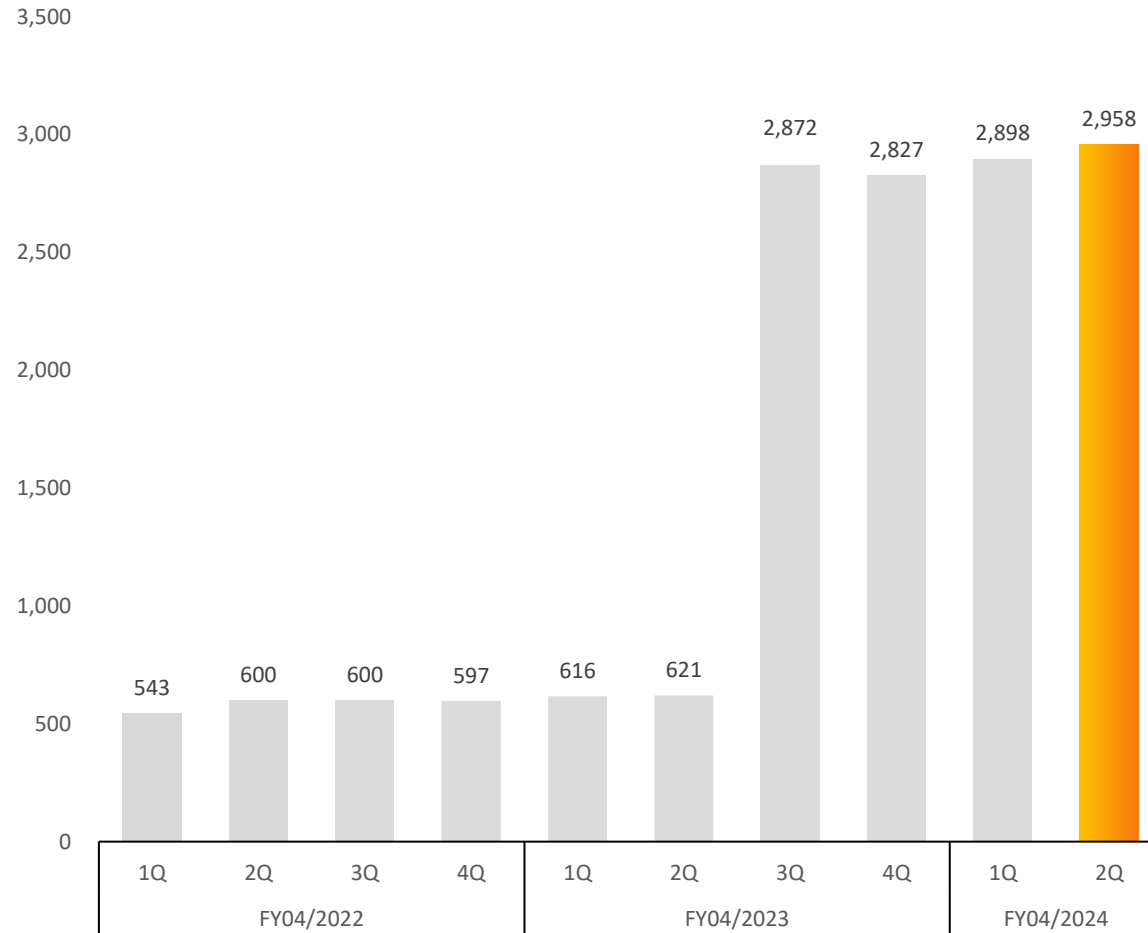


Recurring sales ratio in this slide is by quarter (every 3 months).

ARR for the entire group was approximately 2.9 billion yen, the best earnings ever

(Units: JPY millions)

ARR



ARR grows significantly

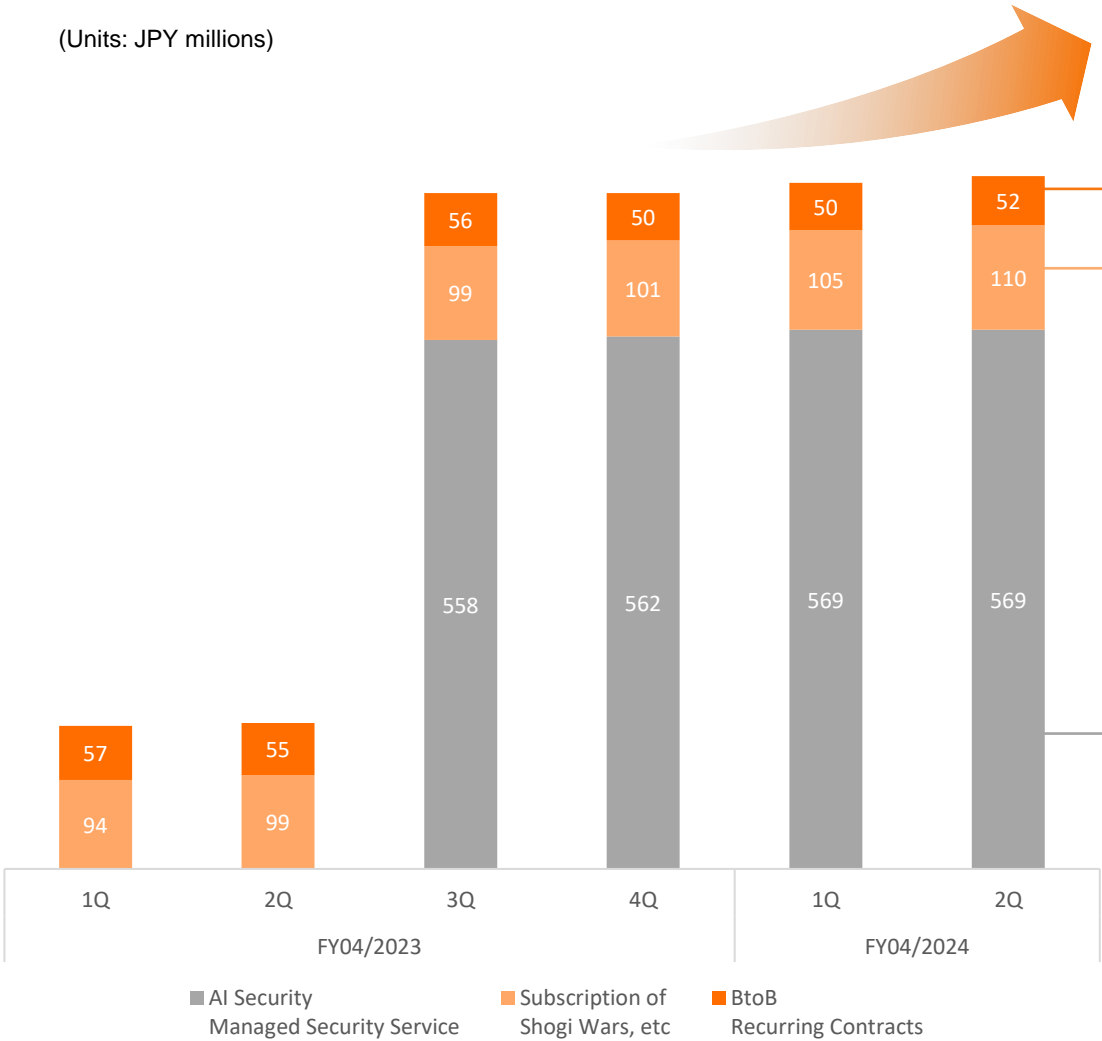
YoY growth **+375.9%**
ARR is **2,958mil yen**

- 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.
- Continuous increase in "Shogi Wars"-related subscription sales since 1Q of this fiscal year, contributing to ARR growth

Recurring revenues are expected to continue to increase With product launches

Recurring revenue breakdown (by quarter)

(Units: JPY millions)



Details of revenues

BtoB Recurring Contracts

HEROZ's BtoB and StrategIT, Inc. recorded ongoing maintenance and operation sales. Operating a lot of long-term projects for more than one year.

Subscription of Shogi Wars, etc

Shogi Wars paid subscriber growth was maintained at 9.3% YoY.

AI Security Managed Security Service

No. 1 share of the domestic market for firewall-type security services for small and medium-sized enterprises
Churn rate remains low at less than 1%.

Future Outlook

Multiple products to be launched

Expect growth through SaaS monetization, such as the release of the "HEROZ ASK" "JOINT", etc.

Establishing the Shogi Wars Economic Zone

Released new Shogi-related content such as "Kishin Analytics" and "Kishin Learning," and expect further growth.

Entering the growing security industry

Expanding areas of support for existing services.
Developing services that expand the scope of MSS to enter the zero-trust security domain.

Performance by Segments (May 2023-October 2023)

- AI/DX services significant growth due to M&A and organic growth ,also, EBITDA margin at 37.6%, high profitability
- AI Security service is deployed by VarioSecure and maintains high profitability with an EBITDA margin of 42.9%.

		FY04/2023 Q2 Results (Non-Consolidated)	FY04/2024 Q2 Actual (Consolidated)	YoY (Consolidated)	YoY (Excluding M&A impact)
(Units: JPY millions)					
AI/DX services	Net Sales	765	1,038	35.7%	14.6%
	Segment Profit	246	321	30.2%	-
	EBITDA	304	390	28.3%	-
	EBITDA Margin	39.7%	37.6%	-2.1%pt	-
AI Security services	Net Sales	-	1,306	-	-
	Segment Profit	-11	431	-	-
	EBITDA	-11	560	-	-
	EBITDA Margin	-	42.9%	-	-
Segment Profit adjustment	Segment Profit	-197	-501	-	-

※Segment information is disclosed from the third quarter of the fiscal year ending April 30, 2023. Segment Profit adjustment of -501 million yen represents corporate expenses that are not allocated to each segment.

Segment Profit of -11 million yen in the AI Security business for the period ending April 2023 includes due diligence expenses associated with the acquisition of the company as a subsidiary.

- This segment includes BtoC, mainly Shogi Wars, BtoB, which handles AI Solution for customers, and SaaS implementation and SaaS-linked development business, which is being developed by StrategIT.
- In the second quarter of this fiscal year, sales increased significantly as a result of the strengthening of the BtoB sales structure.

(Units: JPY millions)		
	FY04/2024 Q2 Actual	
Net Sales	1,038	Recurring Revenue Ratio 30.7%
Operating Profit	321	Operating Margin 31.0%
EBITDA	390	EBITDA Margin 37.6%

Both BtoC and BtoB sales increased significantly YoY

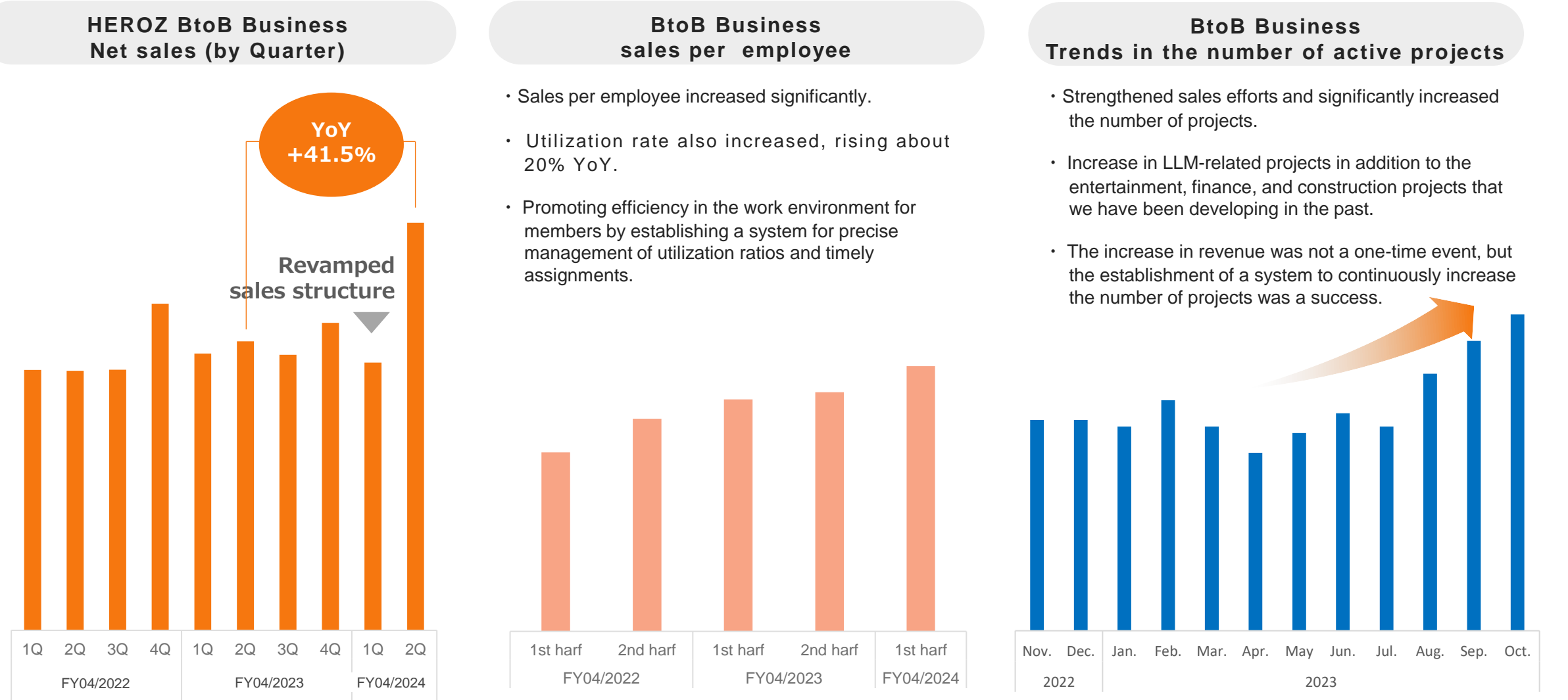
- Shogi-Wars related sales progressed, maintaining sales that grew significantly in Q1. Continuing to approach a wide range of users to maximize the number of Shogi players, taking advantage of the recent Shogi boom.
- HEROZ's BtoB business landed on significantly higher sales YoY and QoQ as an increase in LLM-related projects and the strengthening of the Company's sales structure began to be reflected in sales.
Ahead of offering a paid version of "HEROZ ASK," the company is moving ahead to capture recurring sales.

AI/DX Services Segment

BtoB business of HEROZ (non-consolidated) achieved a significant increase in sales

HEROZ

HEROZ's BtoB business saw a significant increase in revenue due to an increase in the number of projects and inquiries as well as the acquisition of large-scale projects in response to increased investment and attention to AI, including LLM. (YoY+41.5%)



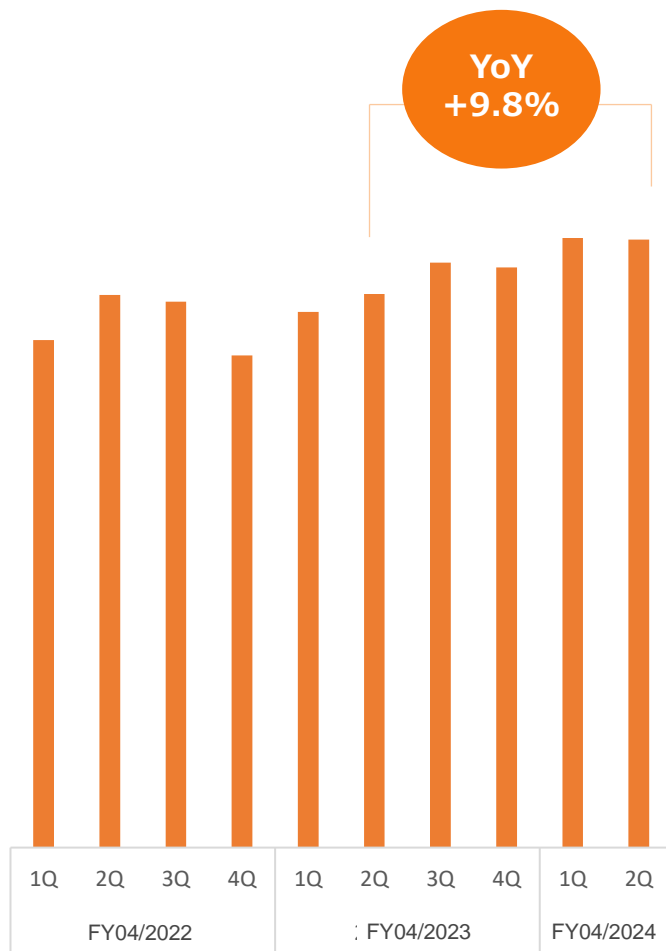
AI/DX Services Segment

BtoC continues to grow around 10%, surpassing initial forecasts.

HEROZ

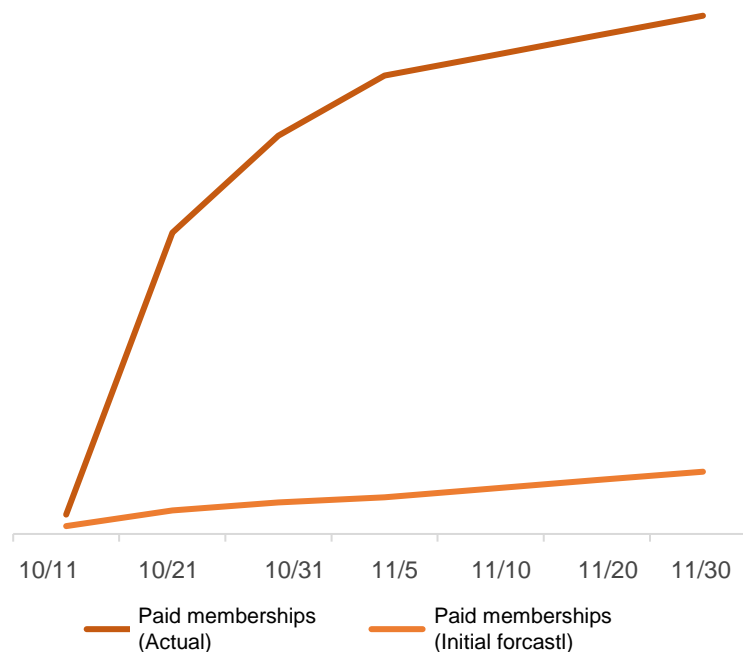
BtoC business grew steadily due to the effects of increased attention to Shogi following Sota Fujii's first ever 8 championships victory, collaboration with the popular Shogi manga "Ban'ou ", and the release of "Kishin Learning", an e-learning service to promote beginner to be intermediate Shogi players.

HEROZ BtoC Business Net sales (by Quarter)



Kishin Learning Paid Membership Trends

- On October 11, we launched "Kishin Learning," a learning tool to improve your Shogi skills. Initial number of paying subscribers far exceeded expectations.
- Reduce churn rates and increase the number of customers consistently by continually enhancing content.



Commended by Japan Shogi Association

- With Fujii's success, the number of "Shogi Wars" users and the number of games played have increased significantly in recent years.
- Based on the business vision of "maximizing the Shogi population," the company received an award from the Japan Shogi Association on November 16 for its contribution to the popularization and promotion of Shogi.



Photo credits : Japan Shogi Association

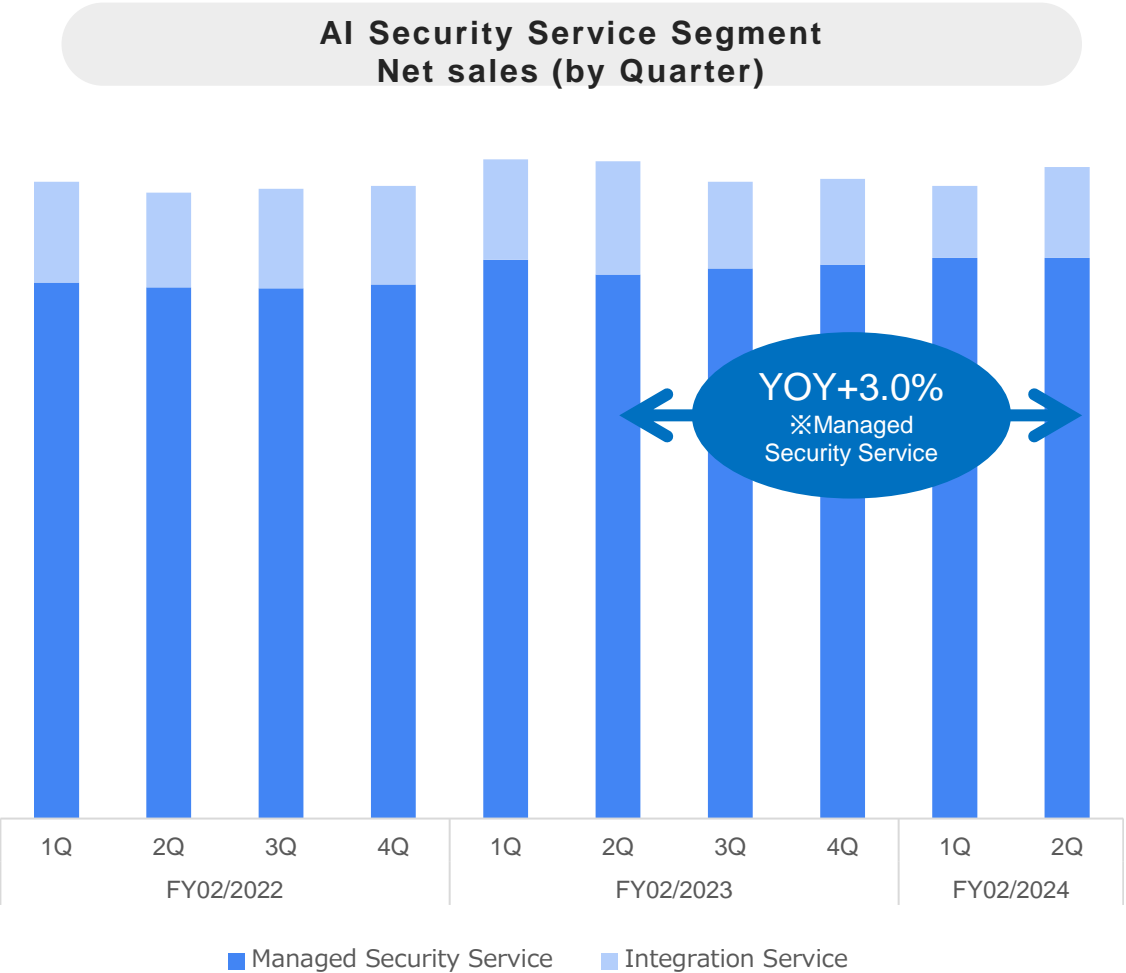
- This segment is developing the business of implementing the HEROZ Group's AI into the security business developed by VarioSecure.

(Units: JPY millions)		
	FY04/2024 Q2 Actual	
Net Sales	1,306	Recurring Revenue Ratio 87.2 %
Operating Profit	431	Operating Margin 33.1 %
EBITDA	560	EBITDA Margin 42.9 %

Recurring sales ratio is high at 87.2%.

- Net sales generally progressed as planned.
- Operating Profit is expected to decrease due to growth investments based on the medium-term management policy, mainly in hiring personnel for service planning, engineering, and operation support, as well as in advertising expenses to strengthen marketing.
- As for the progress of expenses, lower recruiting costs due to the start of direct recruiting and lower personnel expenses due to the delay in the start of employment contributed to the overachievement of profits.
- Started streamlining operations at SOC (Security Operation Center) using HEROZ's AI.

AI Security Service Segment
Steady progress in mainstay Managed Security services

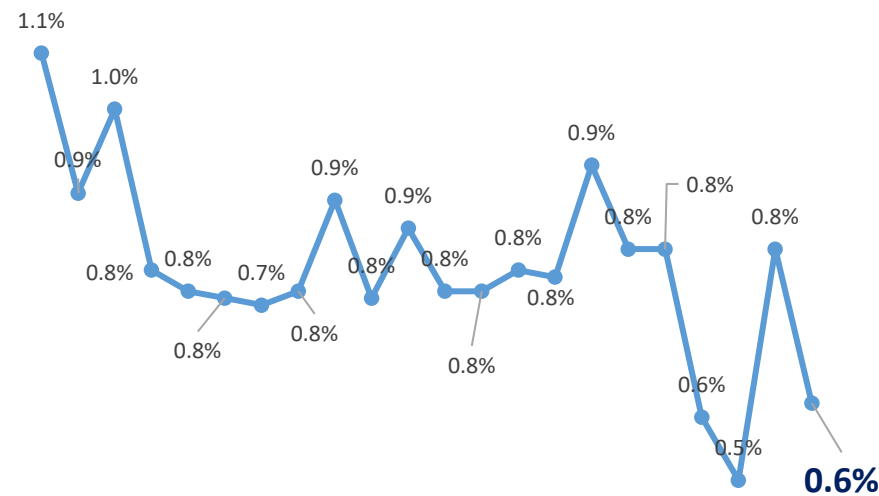


- Sales of the mainstay Managed security services grew steadily as the number of end-users increased.
- Managed Security Service is an integrated Internet Security service that provides comprehensive support throughout the entire process, from security implementation and construction to maintenance and operation
Top share of the firewall/UTM operation and monitoring services market for companies with less than 1,000 employees
- Integration Services offers one-time fee-based sales services, such as sales of security equipment and system construction.

※ VarioSecure, Inc. is consolidated from 3Q 2023

AI Security Service Segment
Managed Security Services steadily increased end-user numbers with low churn rates

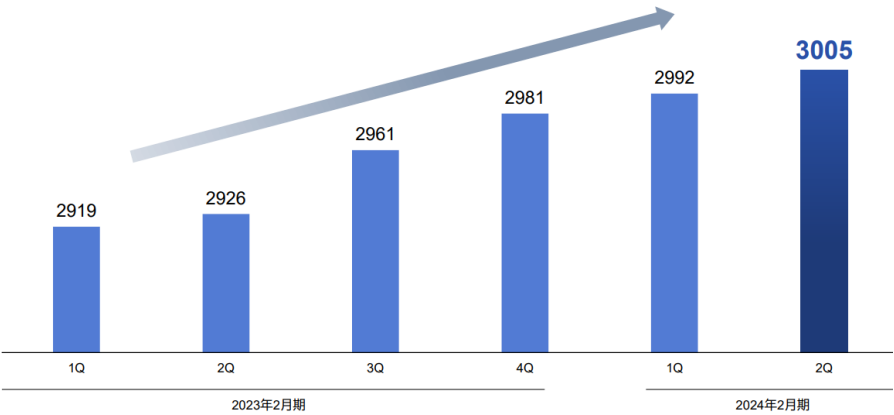
Managed Security Service
Churn Raito (by Quarter)



Churn rate remains stable at below 1%.

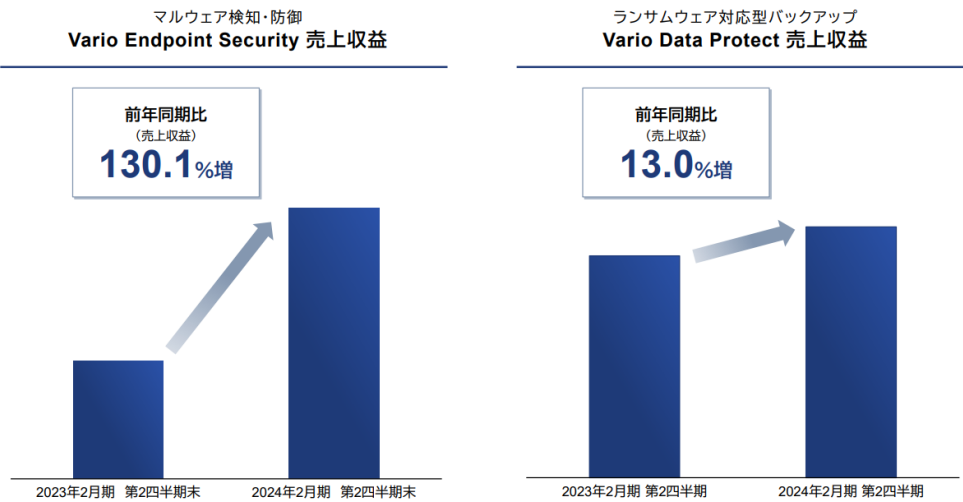
1Q 2Q 3Q 4Q	1Q 2Q 3Q 4Q	1Q 2Q 3Q 4Q	1Q 2Q 3Q 4Q	1Q 2Q 3Q 4Q	1Q 2Q
FY02/2019	FY02/2020	FY02/2021	FY02/2022	FY02/2023	FY02 2024

Managed Security Service
Number of end users (by Quarter)



- Steady increase in the number of users
- Contribution to stable revenue base

Advances in Server Threat Protection
Solutions



- Increased sales of products effective against malware and ransomware

Balance Sheet (as of October 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 grouping of VarioSecure Inc. and StrategIT Inc, there is a goodwill balance of 2.2 billion yen in intangible fixed assets.

Units: JPY millions	As of 4/30/2023 (Consolidated) (A)	As of 10/31/2023 (Consolidated) (B)	Increase and decrease (B-A)	
Current Assets	4,963	4,833	△130	
Cash and deposits	3,798	3,551	△246	Decrease mainly due to payment of income taxes
Fixed Assets	3,709	3,684	△25	
Property, plant and equipment	273	216	△20	
Intangible assets	2,640	2,660	19	
Investments and other assets	831	807	△23	
Total Assets	8,673	8,517	△155	
Current Liabilities	994	990	△4	
Fixed Liabilities	1,598	1,433	△164	
Net Assets	6,080	6,093	13	

03

Acquisition of shares of A.I. Squared, Inc.

Company name	A.I. Squared, Inc.
Developed	December, 2015
Capital stock	90 million yen
Number of Employees	21
Performance (FY06/2024 1st Quarter)	Net Sales:90 million yen Operating Profit:-2 million yen EBITDA :-1 million yen
Adress	3-9-3 Iwamoto-cho, Chiyoda-ku, Tokyo
Business	Provision of various IT services and consulting using artificial intelligence (AI)
Representative Director	Masaki Ishida
Senior Director	Akihito Ogino
Director	Tomohiko Hori
Excecutive Officer	Tou Go Tomonori Fujie Mayuko Miyauchi
Web site	https://www.ai2-jp.com/



Provides AI solutions in the contact center domain, including automatic response systems, automatic summarization and classification systems, etc., with natural language processing at the core.



Utilized in operator support systems, customer support AI chatbots, HR and administration-specific AI chatbots, etc.



AI summarization service featuring features such as reasonably priced generated summaries, etc.

※ Plan to change the fiscal year end to February in consideration of joining our group

Overview of A.I. Squared Inc.'s Services

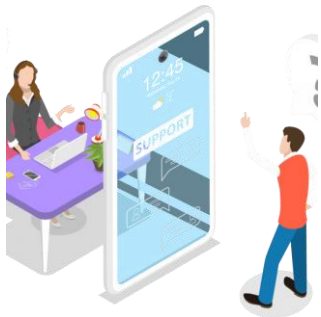
Developing business automation solutions in the contact center domain, including automatic response systems and automatic summarization and classification systems, by applying machine learning and deep running to natural language processing.



Voice Recognition System
AI2ASR
Cloud-based
voice recognition system



Automatic Response System
QuickQA (QQA)
Highly Accurate FAQ Recommendations to Support
Phone CallsMachine-learning FAQ search service
that can also be used as a chatbot



Automatic Analysis System
QuickSummary (QS)
Supporting customer's voice
analysis and productivity
improvement of call centers.



System to Support create FAQ
FAQ Finder
Automatically extracts Q&A from dialogue history and
presents them as FAQ candidates

Contributing to improving the productivity of contact center operations for various customers through its main services, the “Quick QA” automated response system and the “Quick Summary” automated summarization and classification system.

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SUNTORY



Panasonic
CONNECT



三井住友信託銀行

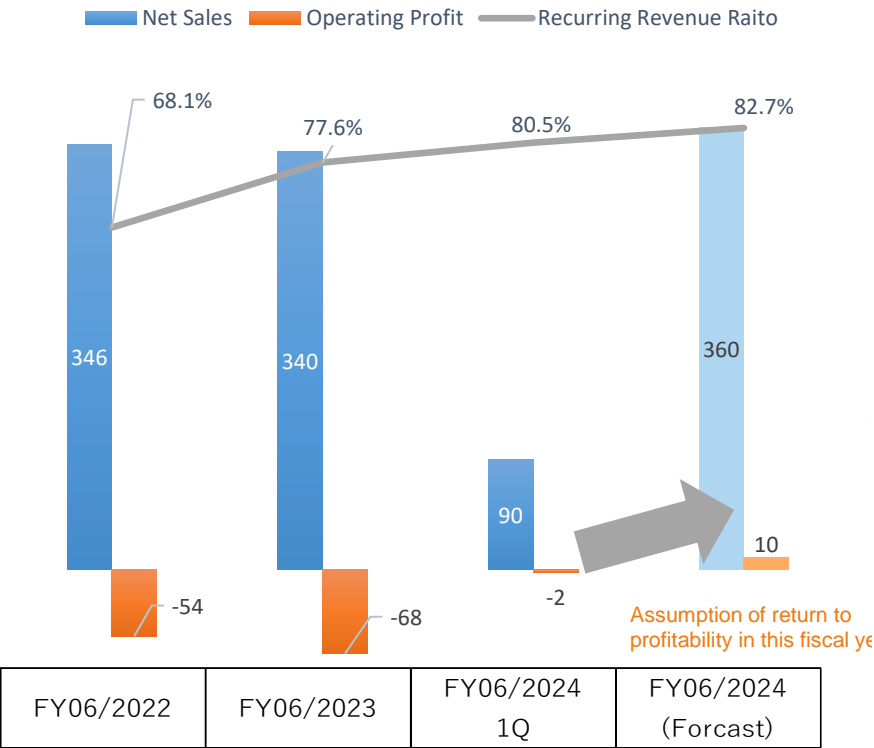
JP ゆうちょ銀行
BANK

JPツウウェイコンタクト

While we have continued to invest in growth, we plan to return to profitability this fiscal year by returning to a growth path and controlling costs. Recurring revenue account for more than 80% of total sales.

A.I. Squared, Inc.'s Performance Trends

(Units: JPY millions)



Sales are expected to increase for the full year of this fiscal year.
Operating Profit is expected to return to profitability.

- Founded in December 2015 with the vision of "Achieving a dramatic increase in white-collar labor productivity through cutting-edge AI".
- We have been expanding the provision of various services for contact centers based on natural language processing AI.
- Although the company had intended to post a loss in the past due to various growth investments and preparation costs for IPO, it has changed its policy and expects to post a profit this fiscal year through cost control.
- Aiming for high business growth by expanding services for contact centers in cooperation with "HEROZ ASK" in the future.

Our aim in acquiring the shares in Company A

HEROZ

- Strengthening our position as a total AI solution partner
- Aiming to capture the contact center market, a promising market for the introduction of generative AI

HEROZ



AI SQUARED
After Internet × Artificial Intelligence

Social Implementation of AI Introduction Know-how

Construction

Finance

Entertainment

Time-series
analysis

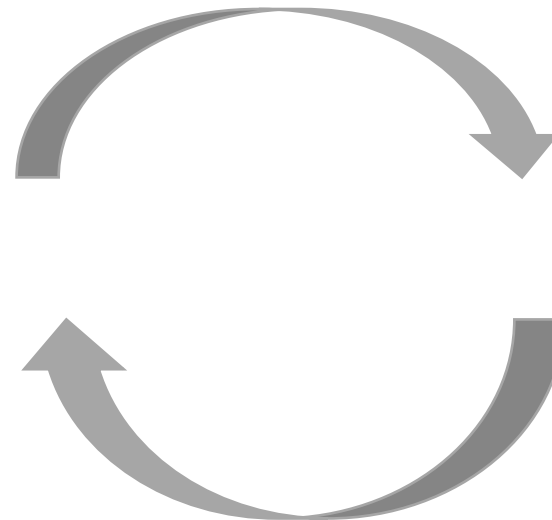
Reinforcement
learning

Image analysis

Mathematical
optimization

Domain Knowledge for Contact Center

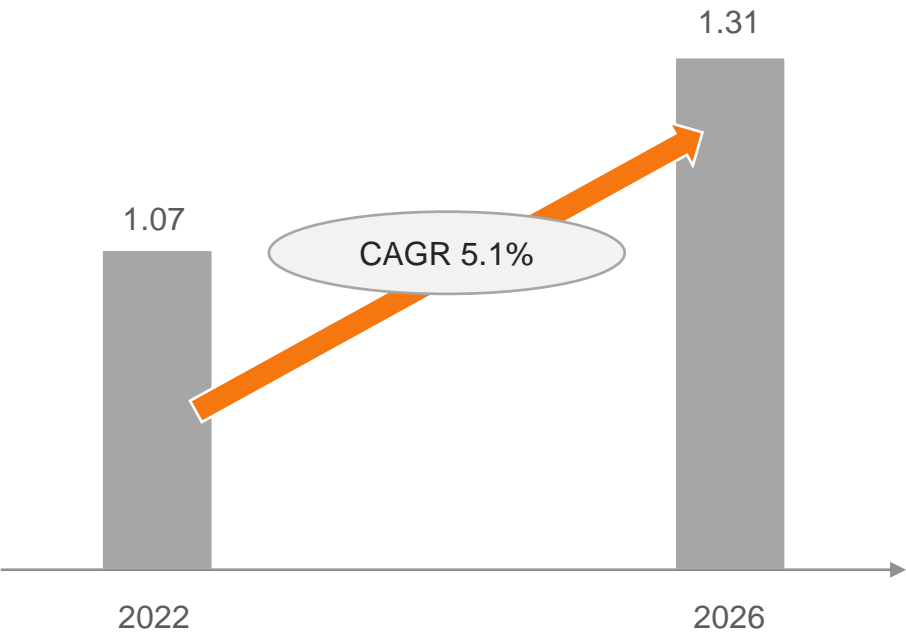
natural language
processing



Our understanding of the contact center market

- BPO market is expected to maintain growth at a CAGR of 5%, but high turnover and recruitment difficulties remain major challenges
- Fundamental reform through technology is inevitable

Trends in Contact Center Market Size (Units :JPY trillions)



Challenges facing the contact center industry

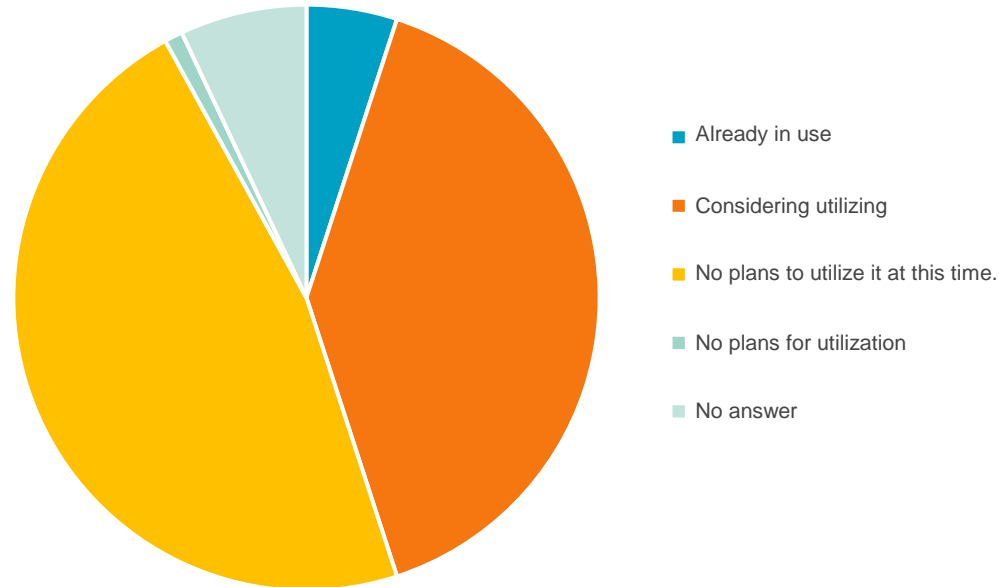
- Need for efficient and effective management of multiple channels
- Chronic labor shortage due to difficulty in continuous recruitment and high turnover
- Difficult to optimize resource management
- Provide ongoing and advanced training opportunities

(Source: Call Center White Paper 2023 Contact Center)

Expectations for Generative AI in Contact Centers

- Contact centers are one of the most promising markets for the adoption of ChatGPT and other generative AI
- We are also promoting PoC with our partners

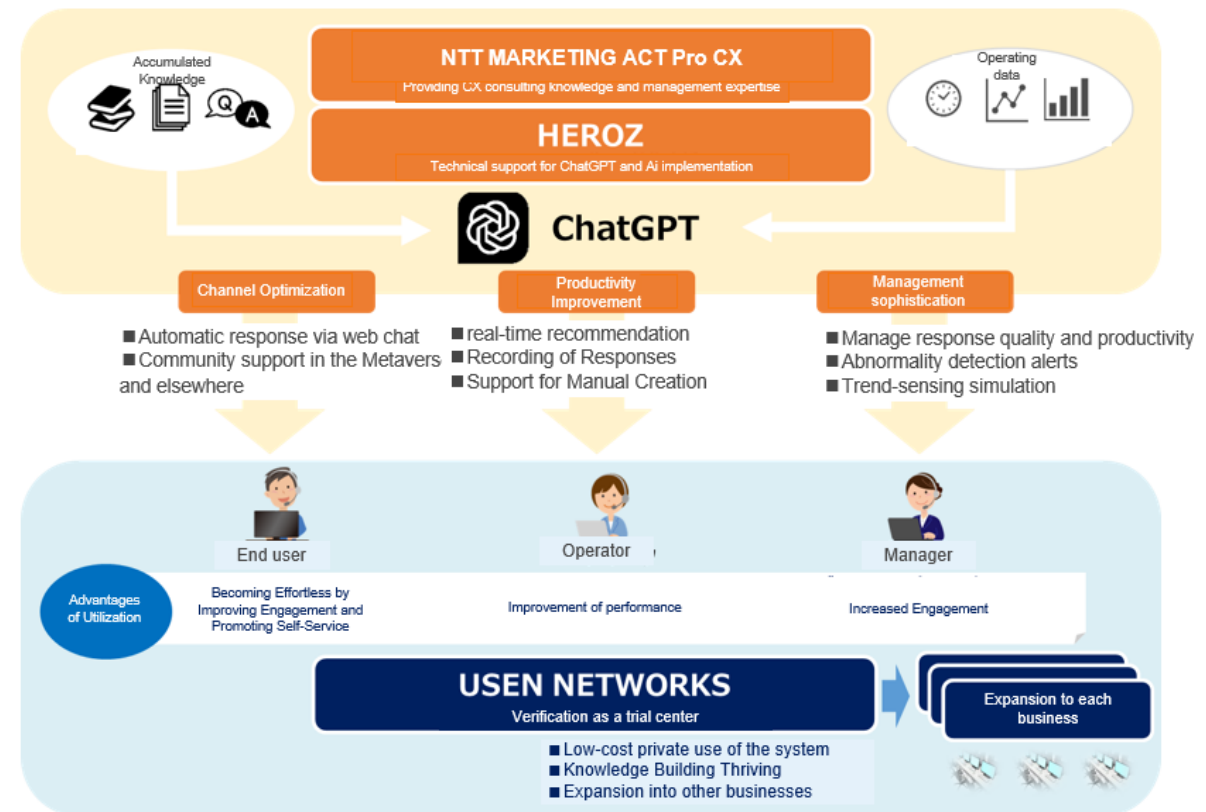
Use of Generative AI in Call Centers



Growth potential through the use of generative AI is very large.

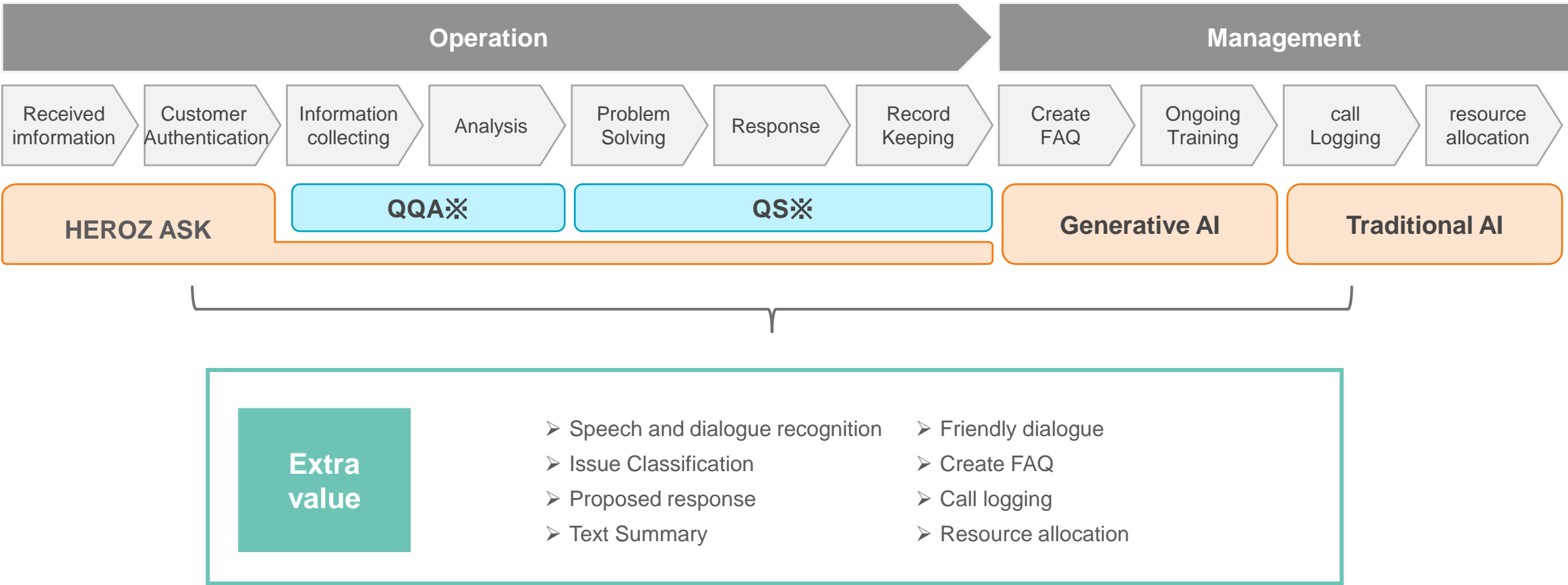
(Source: Call Center White Paper 2023 Contact Center)

HEROZ's Initiative



Overall picture of contact center operations and the tasks covered by the product

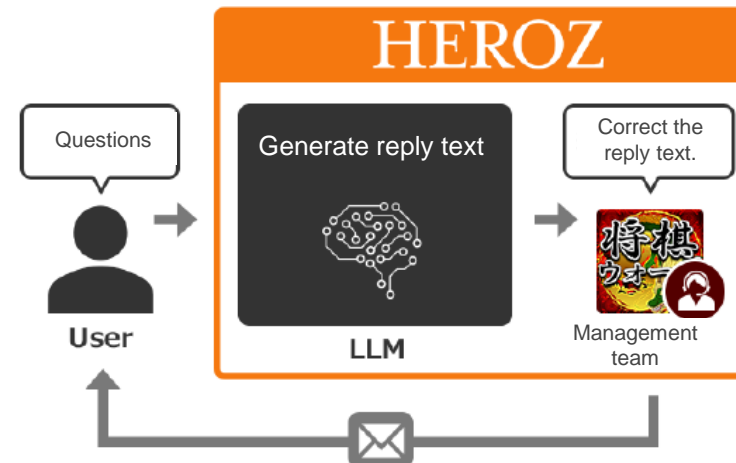
- The combined use of our company and AI-Square's products will expand the scope of business covered and enable a wider range of support.



A Case Study of Advanced Customer Success Operations for Shogi Wars

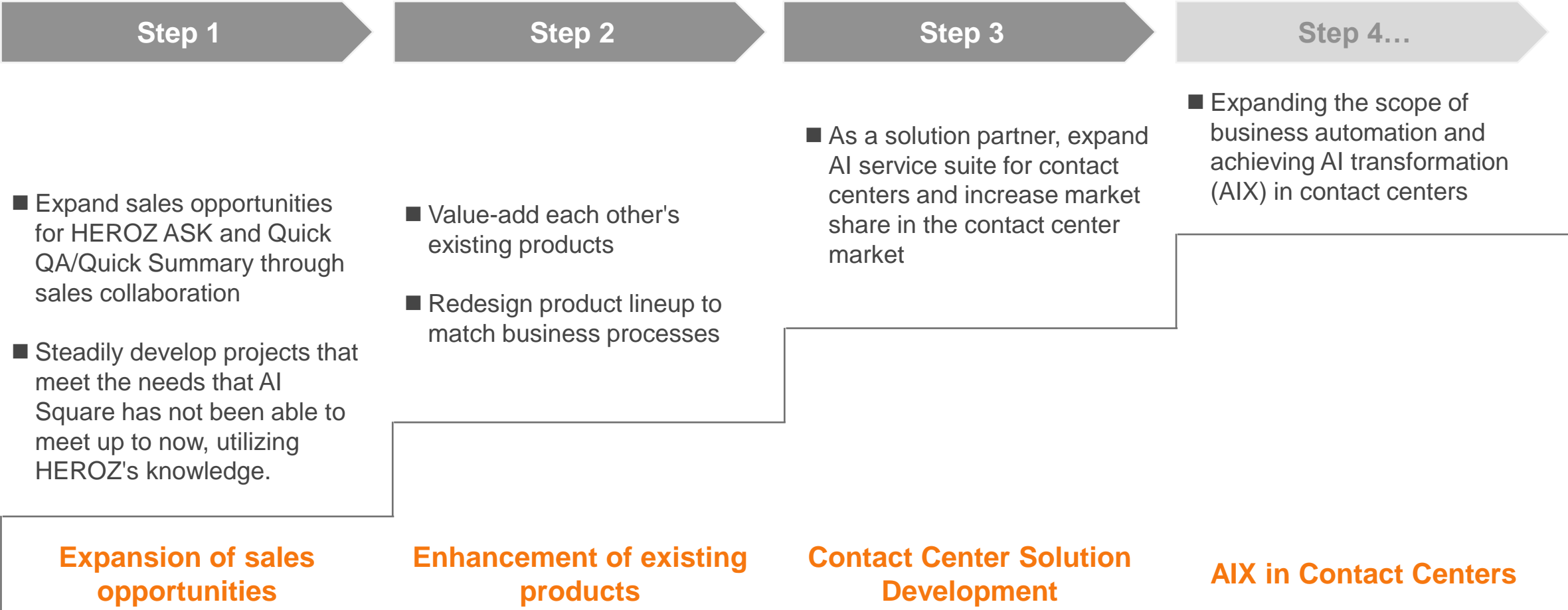
- As an example, in the area of FAQ creation and CS operations, the company has a track record of improving the efficiency and sophistication of Shogi Wars' inquiry response.

Issue	Effect
<ul style="list-style-type: none">✓ Numerous inquiries requiring expertise were received daily.✓ Inquiry response was highly personalized, and user satisfaction was greatly affected when the person in charge was not available.✓ Depending on the type of inquiry, it often took a long time to respond.✓ There was a sense that we may not have been able to extract potential user demand.	<ul style="list-style-type: none">✓ Reduced response time✓ Ensure accuracy✓ Promote standardization of operations✓ Ensure coverage ratio✓ Cost efficiency✓ Accumulation of Knowledge



Post-merger synergy creation plan

- Aiming to create and expand the market for contact center products by leveraging the strengths of both companies, starting from the expansion of sales opportunities through sales collaboration.



04







Initiatives in each business segment

- We have two businesses: AI/DX business and AI Security business.
- A.I. Squared, Inc. will be classified as an AI/DX business

※1 MAU : Monthly Active User

※2 MPU : Monthly Paid User

※3 ARPPU : Average Revenue Per Paid User

Segment	AI/DX Services			AI Security Services
	BtoC	BtoB		
Business Contents	<div></div> <p>Shogi SaaS business for individuals, including "Shogi Wars," utilizing AI and other technological capabilities that won the World Computer Shogi Championship.</p>	<div></div> <p>Provide solutions to customer issues through data analysis and AI development. Provide AI Solution that can be utilized in practical operations for a wide variety of customers.</p>	<div></div> <p>Support for SaaS implementation and development of systems that integrate APIs between SaaS. Selling API applications on the app market.</p>	<div></div> <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● Number of projects in operation	<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

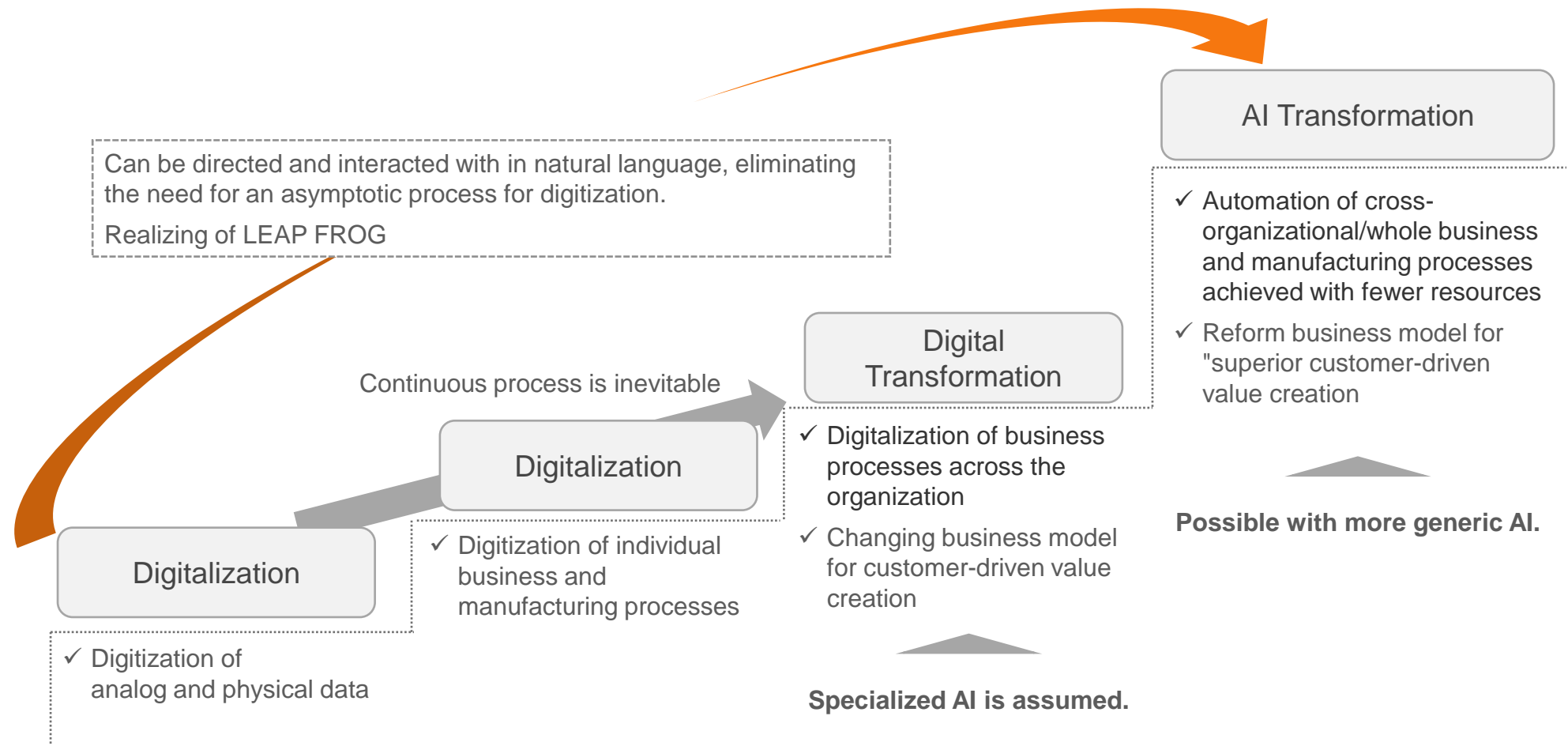
Main Achievements in the 2nd Quarter of FY04/2024

- Our dedicated LLM group is now offering a beta version of “HEROZ ASK” to enterprise companies, which announced its rebranding in September. Continuing to adjust the service with a view to making it a paid service after the first of the year.
- “Shogi Wars” has seen a significant increase in the number of users and games played through commemorative events and various collaborations, driven by the recent excitement in the Shogi world. On October 11, Shogi launches “Kishin Learning,” a learning service for beginner to intermediate level Shogi players.
- In the BtoB business, sales increased significantly ,thanks to the strengthening of the customer base by our sales organization and measures to improve the utilization ratio of engineers by the front-office divisions. Inquiries related to generative AI are also increasing, and we are aiming for continued growth.

Initiatives for FY04/2024

- **Launched “HEROZ ASK,” a product specializing in specialized content, available for a fee from the beginning of the year.**
“HEROZ ASK for Enterprise” will be available for a fee from the beginning of the year. In addition, we aim to increase recurring sales by developing products specialized for business promotion in individual fields.
- **Acquired shares of A.I. Squared, Inc. and made it a group company.**
As part of our AI SaaS strategy, we made A.I. Squared, Inc. a consolidated subsidiary. Leveraging the know-how of both companies, we will promote AIX in the contact center industry and domain.
- **Synergies with Group Companies**
HEROZ's AI is installed in the network security operation and monitoring service (SOC) of VarioScure, Inc. Some functions are now in operation, promoting semi-automation of SOC operations.

We have been helping companies DX in their core operations, but the asymptotic process of digitization was inevitable
Going forward, we will support discontinuous change by maximizing the power of the Large Language Model (LLM).



※ Based on the definition in the DX Report by the Ministry of Economy, Trade and Industry

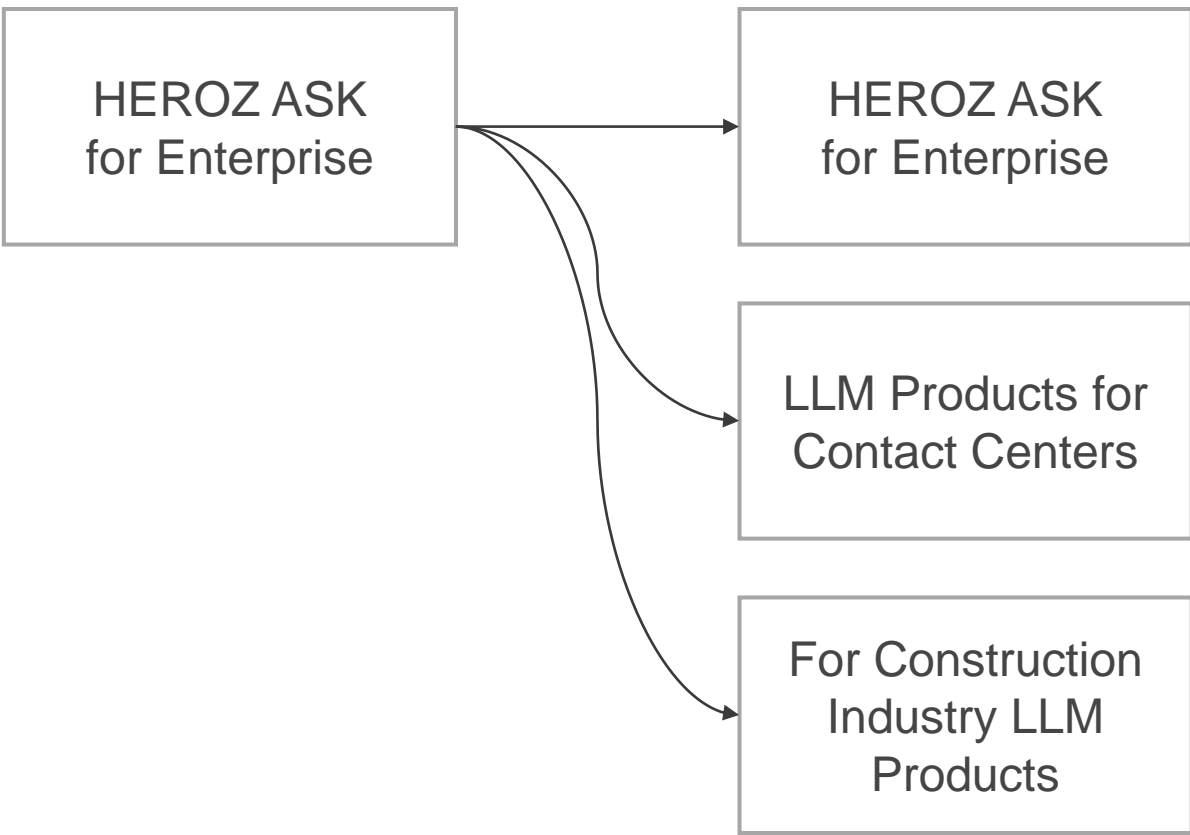
LLM Product “HEROZ ASK” β version Release and Future Roadmap

- Our LLM Gr is currently promoting research activities for product development and future commercialization using generative AI.
- The β version of "HEROZ ASK for Enterprise" is now available for enterprise companies, and approximately 20 customers are using it on a trial basis within 2 months of its release. Evolution to an industry-specific LLM product is also under consideration.

Current Development Status : closed β ver.



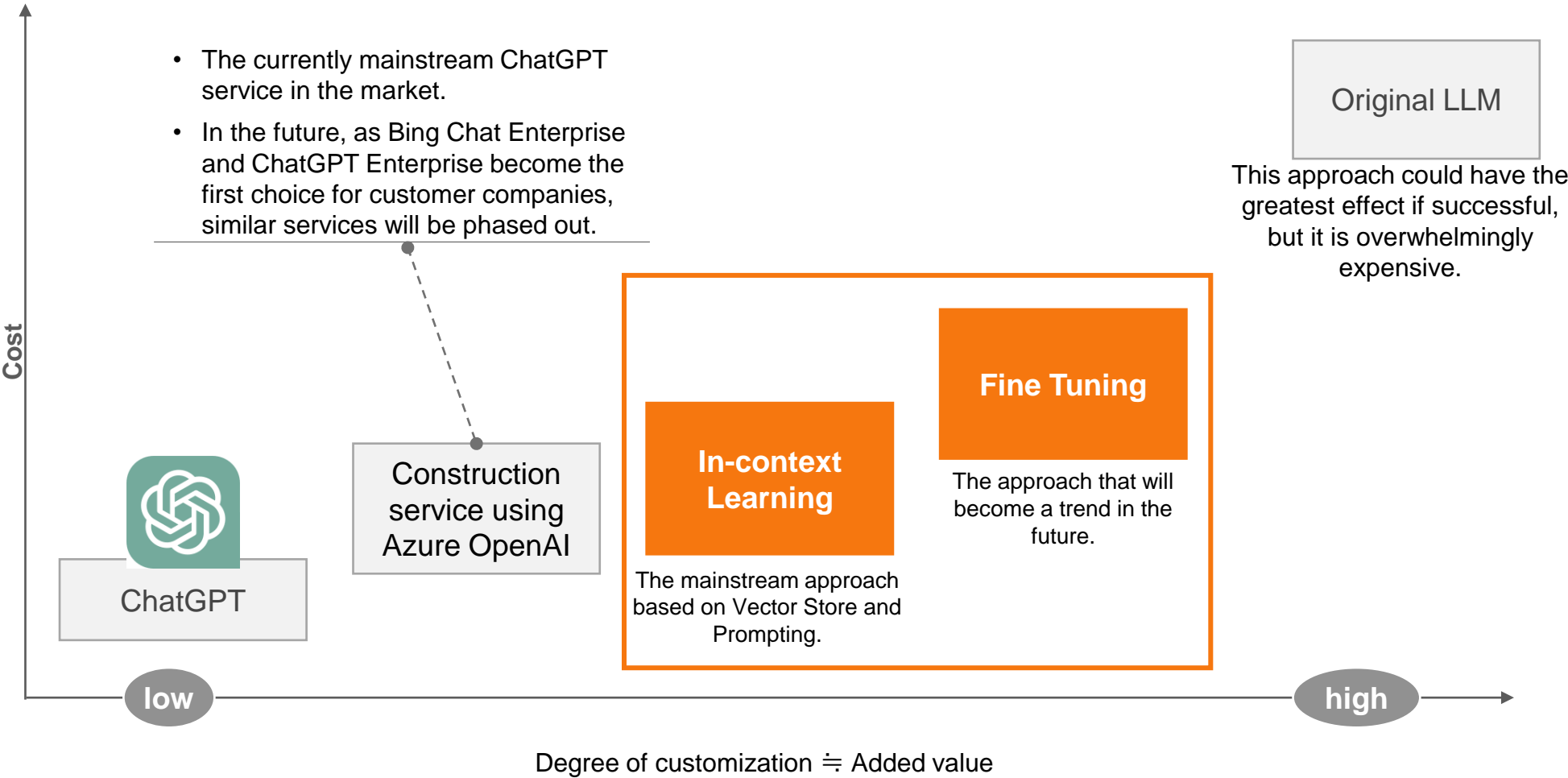
plan to release this release and domain specialization in the future.



- Revamped Closed Beta to offer ChatGPT (LLM) for easy business use by anyone.
- Under development with the aim of providing a service that can be used casually, with a minimum monthly fee of 900 yen/account.
- Currently developing specialized products for contact centers through integration with A.I. Squared, Inc. and synergy with “Quick QA”/“Quick Summary”.
- Results have been verified internally, including automation of inquiry response operations.
- Starting with an exhibit at the Construction DX Exhibition, we plan to offer LLM specialized in the construction domain to construction businesses.
- Currently planning field studies with partners

The classification of LLM services as seen by HEROZ and our positioning.

The mainstream service in the current market is the construction service using Azure OpenAI.
We looking ahead to future trends, offers customization to meet the individual needs of each company at a realistic cost using LLM.



“HEROZ ASK” Service Overview

HEROZ

- Now offering a closed β version of **"AI Assistant" SaaS service** for enterprises.
- Scheduled to be paid from the beginning of the year. ※「ASK = Always Seek Knowledge」

Features of “HEROZ ASK”

Capable of loading in-house data

Flexible access control

High security level

User-specific settings are possible


Enhanced Halcyonation Measures



Case Study: Regulatory Search in the Construction Industry


By customizing GPT, we were able to provide more concise and accurate responses, and our answers to home building exam questions improved to a passing level. Currently, we plan to continue customization and bring it up to the level of passing the first-class architect exam.

Our customized GPT was able to answer some building code questions correctly, but the GPT-4 responses were marked by plausible deniability (red text).




高さ30mの建築物には、原則として非常用の昇降機を設けなければならないのでしょうか？

建築基準法34条2項は「高さ31メートルをこえる建築物（政令で定めるものを除く。）には、非常用の昇降機を設けなければならない。」と定めている。したがって高さ30mの建築物に設置義務はない。

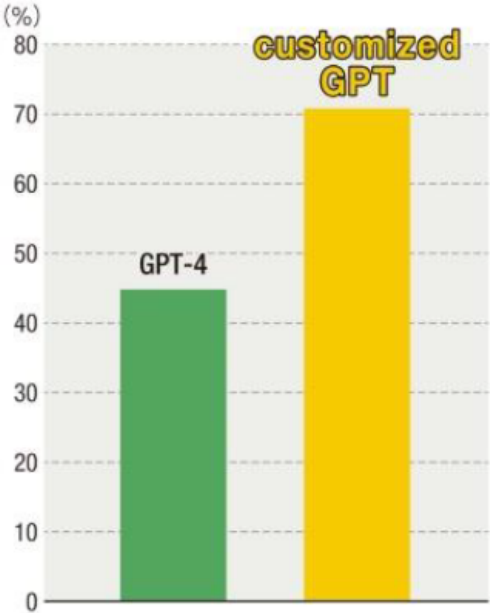
Customized 

正しいです。高さ30m以上の建築物には、原則として非常用の昇降機を設けなければならないと、建築基準法施行令（昭和22年政令第169号）第13条に規定されています。これは、非常時における避難や救助活動を円滑に行うための要件であり、建物の安全性を確保するための重要な規定です。ただし、一部の例外があります。例えば、高さ30m以上の建築物でも、建築基準法施行令第18条に定められた特定用途の建築物の場合は、非常用の昇降機を設ける必要がありません。

GPT-4 

Answers containing plausible lies

“HEROZ ASK” can produce a level of accuracy that significantly exceeds the ChatGPT4 response rate for specific areas



percentage of correct answers to home building exam

Launched "Kishin Learning," a Shogi learning service.

HEROZ

- On October 11, 2023, we started providing the "Kishin Learning" service as a learning content within "Shogi Wars".
- Kishin Learning" is an e-learning service for Shogi beginners to kyu-kyu ranks, aiming for promotion to Shodan. You can enjoy the unique curriculum of "Shogi Wars" with video commentary by popular professionals who are active in the media. Fun content that will help you become stronger in a short period of time.
- Designed as a service that allows a beginner to become a Shogi Shodan in one year, whereas it is usually said that it takes several years for a beginner to become a Shogi Shodan. Aiming to reach Shodan with 1 hour of study per day, 365 hours per year.



Kishin Learning: Introduction Video
[https://youtu.be/ KljKk4gXsl](https://youtu.be/KljKk4gXsl)

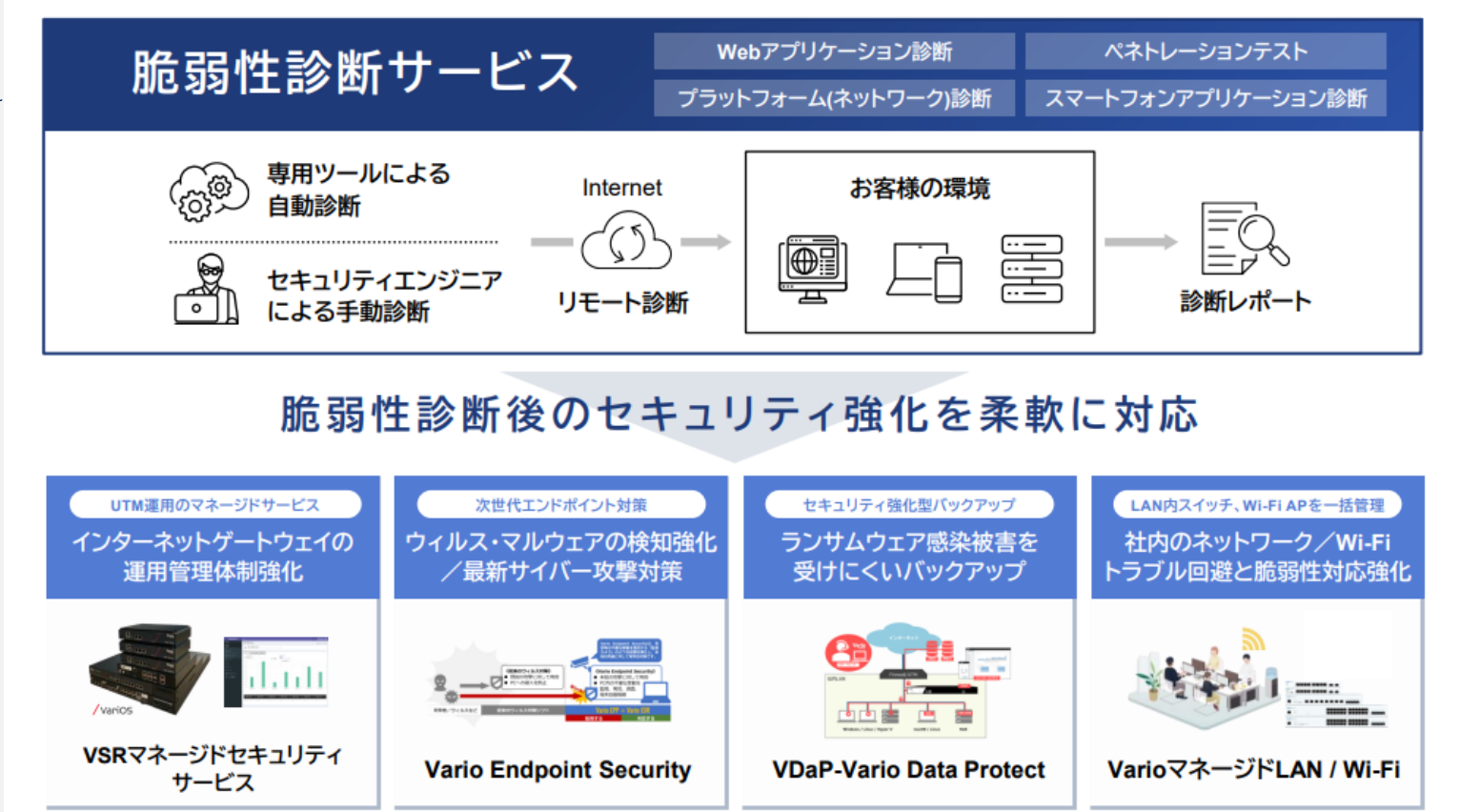
Main Achievements in the 2nd Quarter of FY04/2024

- Provides services to make corporate Internet use safe and comfortable. Boasts the top share of the firewall/UTM operation and monitoring service market in Japan for small- and medium-sized businesses, with a churn rate that remains low at less than 1%.
- As an initiative related to entering the growing security market, vulnerability assessment services were launched this quarter. Release roadmap for new services progressed as planned.
- “AI SOC” project is underway to streamline operations and management tasks by utilizing HEROZ's AI technology. Started semi-automation of a series of operations.

Initiatives for FY04/2024

- **Expand the scope of managed service support and strengthen competitiveness**
In 3Q, work on adding vulnerability assessment lineup and unauthorized terminal visualization service for internal LAN, etc.
- **Entering the growing security market**
Design and development of IDaaS linked to our services for entry into the zero-trust security domain utilizing our existing services.
Aiming to develop services that fit the scale of small and medium-sized businesses
- **Strengthen new sales structure different from existing sales network**
To strengthen the new sales structure, aggressive investment in inside sales and marketing for service planning and new agency development.
Significant increase in the number of leads, etc., and continued strengthening of customer development

- Strengthened one-stop corporate security support services with the launch of vulnerability assessment services.



- Promoting a project to streamline network security operation and management tasks using HEROZ's AI technology.

“AI SOC” project

- Automation of operational tasks and systemization of highly technical tasks with AI.
- Expected benefits include reduced costs and improved service quality
- Currently, AI has been introduced for some setting change operations to achieve semi-automation of a series of operations.
- In the future, AI will be introduced into support operations.
The project will be promoted with a view to providing this service on an OEM basis.

「AI SoC」プロジェクト	
概要	期待される効果
<ul style="list-style-type: none">● 従来、手作業で行われていた運用業務の自動化● 自動化だけでは合理化の難しい高度な技術業務を AI の活用でシステム化	<ul style="list-style-type: none">● コスト削減と品質向上の達成● 作業時間短縮によるサービスレベルの向上
プロジェクトの進捗	今後の展望
<ul style="list-style-type: none">● VSRマネージドセキュリティサービスにおける設定変更業務にAIを導入し、顧客要望受付から設定変更完了まで、一連の業務の半自動化を推進	<ul style="list-style-type: none">● サポート業務の中にも AI を導入し、教育コスト削減と回答品質の向上に活用● 「AI SOC」のOEM提供も視野にプロジェクトを推進

Topics③ Strengthen new sales structure different from existing sales network

- Promoting the establishment of a strong direct sales structure based on the medium-term management plan policy. Various KPIs are showing significant improvement.

Initiatives and effects of each sales measure

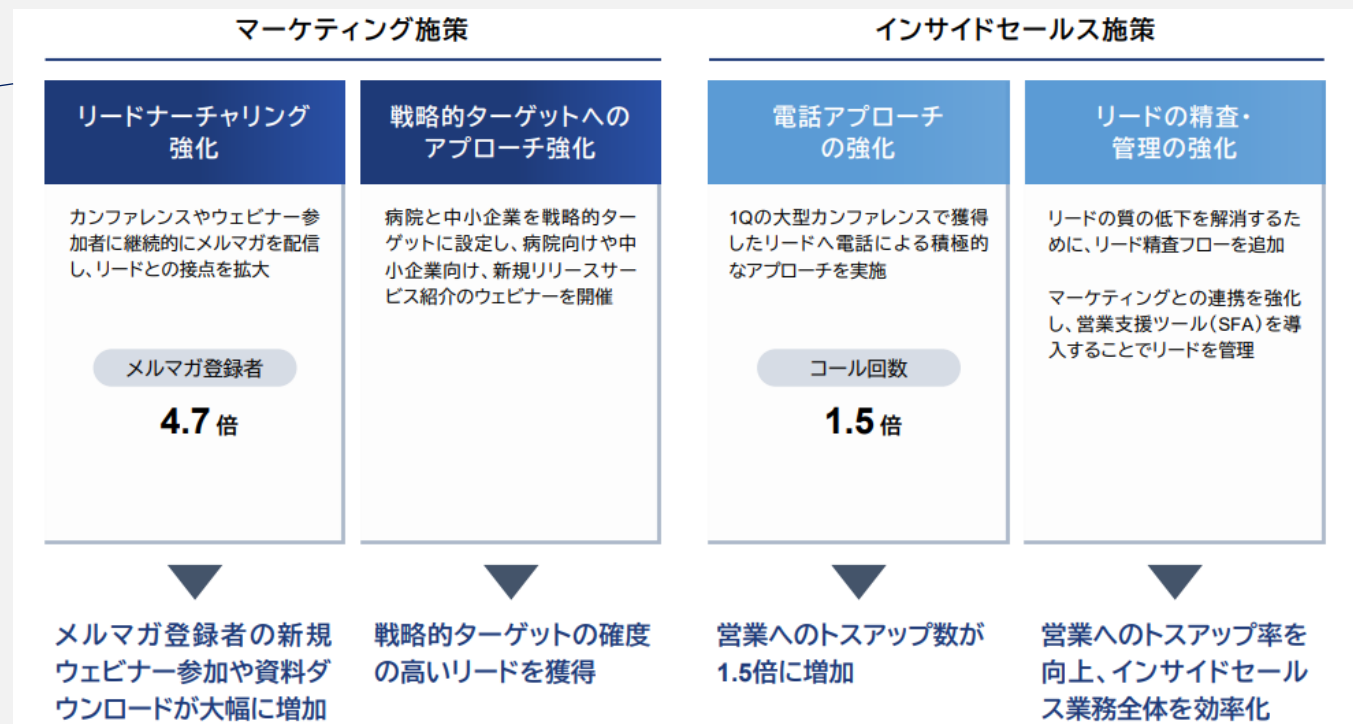
Marketing Measures

Strengthened appeal to target customer segments and lead nurturing for webinar participants.

The number of subscribers to the newsletter increased significantly. Significant increase in new webinar attendees and requests for information materials, resulting in highly qualified leads.

Inside-sales Measures

Improve the quantity and quality of leads through more aggressive efforts in telephone sales and the introduction of a lead screening flow and management tools.



Strategic Policy: Future IDaaS Business

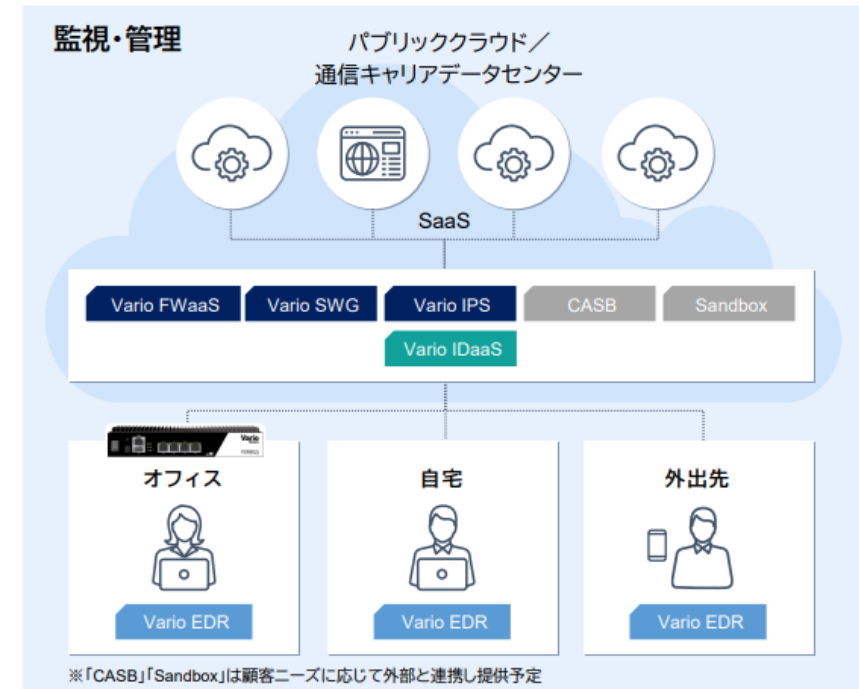
- Zero-Trust Development for Small and Mid-Size Companies

- From cloud computing to office environments, we will continue to provide security services suited to the scale of small and midsize companies. Ensure security and reduce operation and maintenance labor.

Future Zero-Security Service Strategy

- Conceptualized a managed service that provides zero-trust security with minimal configuration.
- Provide services at the minimum level necessary to meet the budgetary sense and level of service of our main customers, Japanese SMEs.
- The above measures will be realized mainly using the following services.
 - “Vario SASE”, a cloud-based network security system;
 - “Vario IDaaS”, a business application portal;
 - and “Vario EDR”, which detects and protects against the latest cyber attacks.

■ 最低限の構成でゼロトラストセキュリティを実現するマネージドサービス



05

Frequently Asked Questions and Answers

- Some of the frequently asked questions and answers we receive in relation to our most recent financial results announcement.

Q1. Evaluation of HEROZ's BtoB growth and future prospects

⇒ With regard to BtoB sales as of the 1st quarter of the current fiscal year announced in September, although the number of projects and inquiries had increased significantly as a result of the strengthening of the sales structure, the posting of sales was delayed compared to the assumption made at the beginning of the fiscal year due to a delay in the delivery period and other factors.

In the 2nd quarter of the current fiscal year, several new projects were launched at the beginning of the period, and the number of projects continued to increase in the latter half of the quarter, indicating that the aggressive sales activities since the second half of last year have borne fruit and are beginning to be reflected in net sales.

We believe that the increase in sales in the second quarter was not a temporary phenomenon due to the AI boom, but rather a result of our BtoB organization's shift to a structure that is more committed to sales, including a stronger customer base due to a strengthened sales structure and a significant improvement in the utilization ratio of paid engineers due to more efficient management.

Q2. Prospects for Achievement of Full-Year Earnings Forecasts

⇒ We believe that we will be able to achieve our full-year forecasts in terms of sales and profits, even excluding the effect of the consolidation of AI-Square.

06



HEROZ Group Structure

Name	HEROZ, Inc.
Location	PMO Tamachi, 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

2023	Acquired shares of A.I. Squared, Inc. and made it a group company.
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
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 and Officer



Representative Director 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 CRO
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

Director 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

Executive officer in charge LLM strategy
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

Executive Officer in charge Business Success Division
Shu Kikuchi

Joined NYK Corporation, Apple Computer Inc, Just Systems Corporation, and other AI solution companies.,
Appointed as Executive Officer of the Company in July 2023

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

Creating the future through artificial intelligence (AI) revolutions

Shogi Wars, our core business, is not just a Shogi application, but a Gaming Platform that has contributed greatly to the revolution of the Shogi world itself through cutting-edge AI technology.



- 7 mil users
- 500 thousands MAU
- Played a total of over 800 mil times

From "competition" to "collaboration"

The Age of Humans vs.AI

Growing pessimism that shogi is over



In 2017, PONANZA won against then Meijin Amahiko Sato

The Age of Human with AI

Human intelligence evolves with AI



Professionals are now studying Shogi through AI
(we also launched Kishin Analytics)

Evolution of the Shogi world

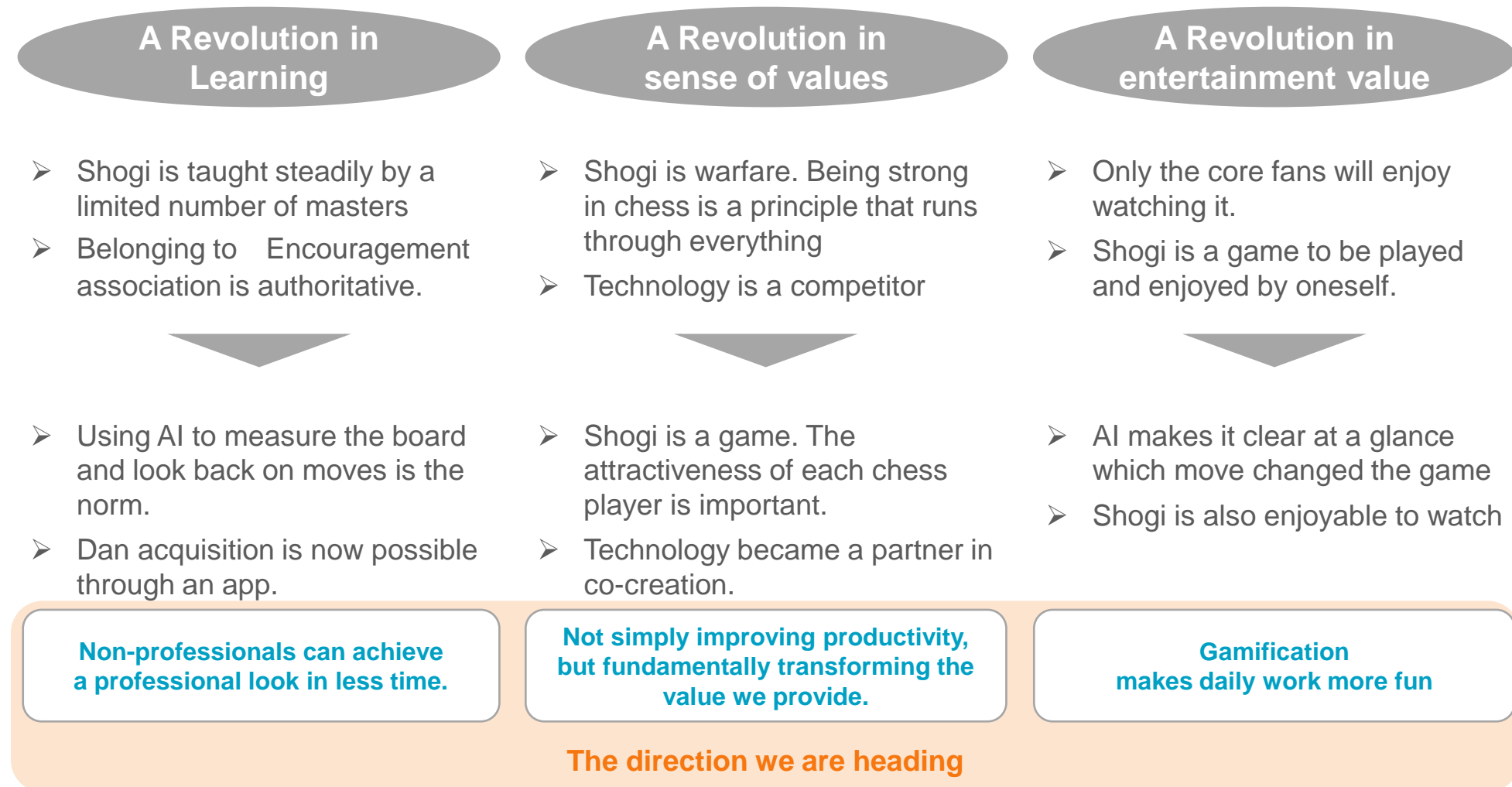
A new era has arrived in which practicing with AI is the norm.



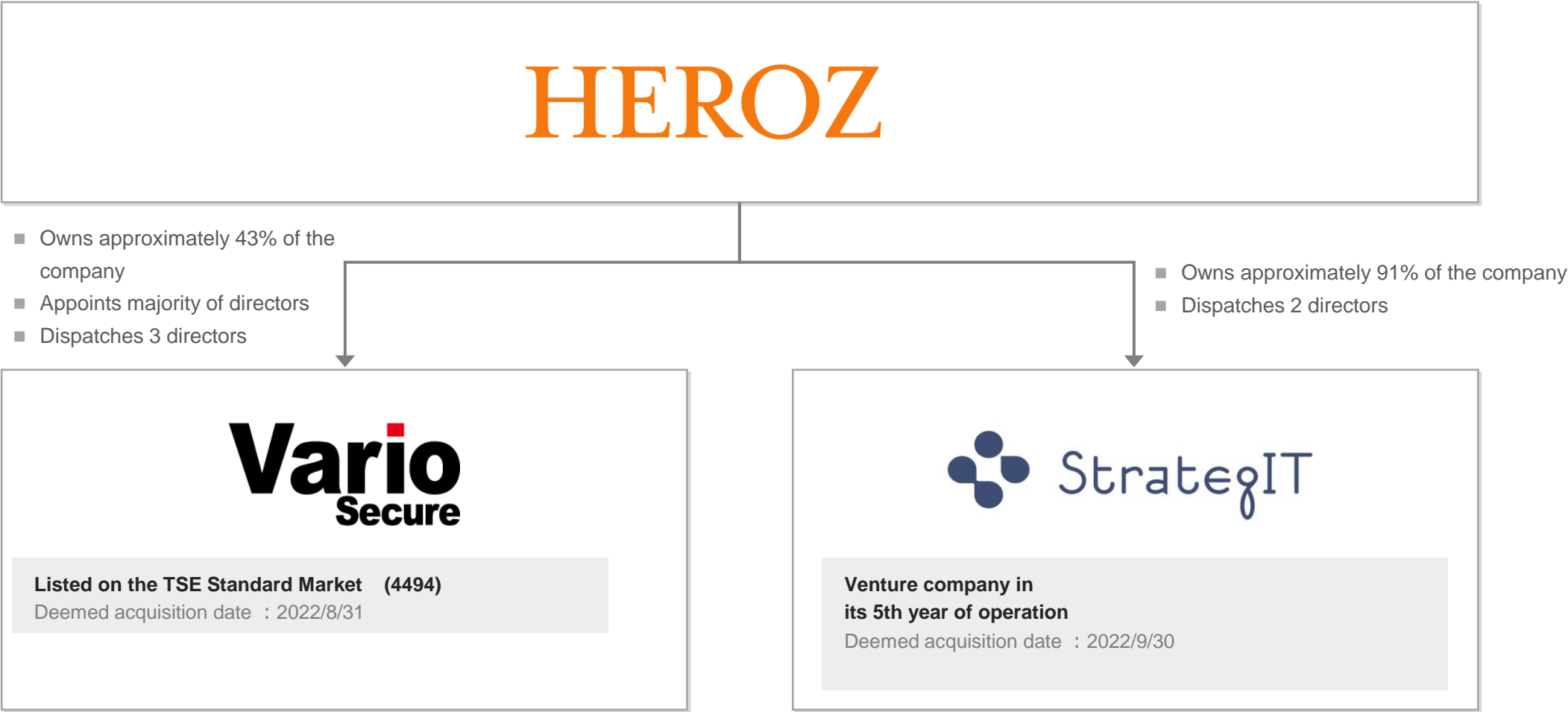
Sota Fujii, the 7th crown, is the poster child of AI.

The Importance of the "AI Revolution" we have caused in the Shogi World

To advance society by properly implementing innovative technologies in the world.



- With the consolidation of VarioSecure Inc. and StrategIT Inc. as consolidated subsidiaries, we have shifted to the group management structure.

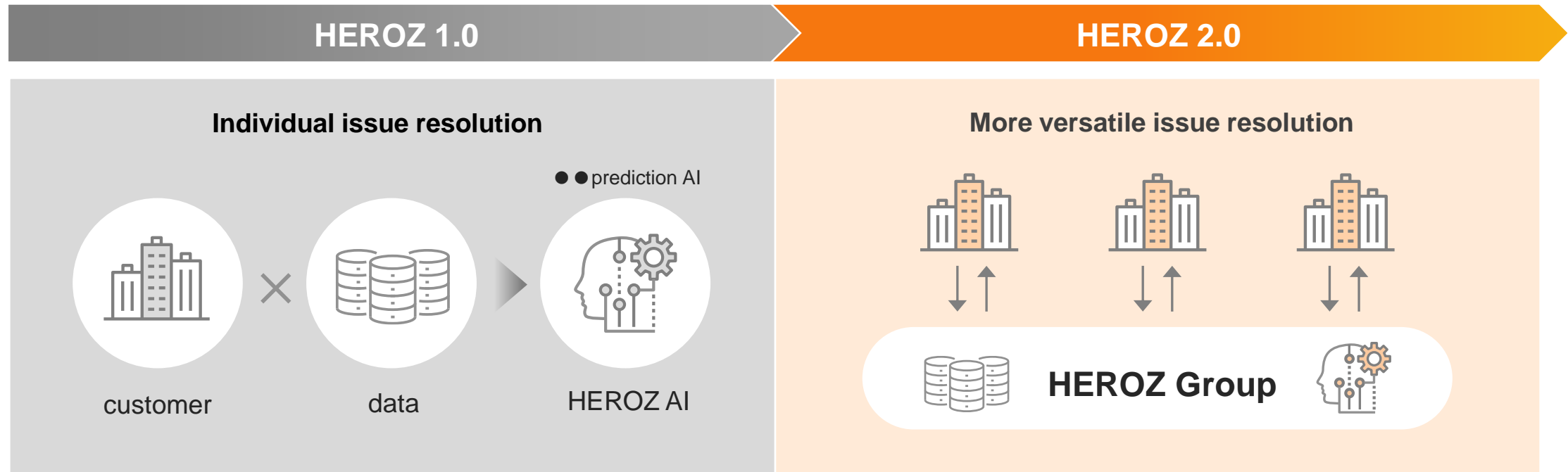


07



Reference Materials

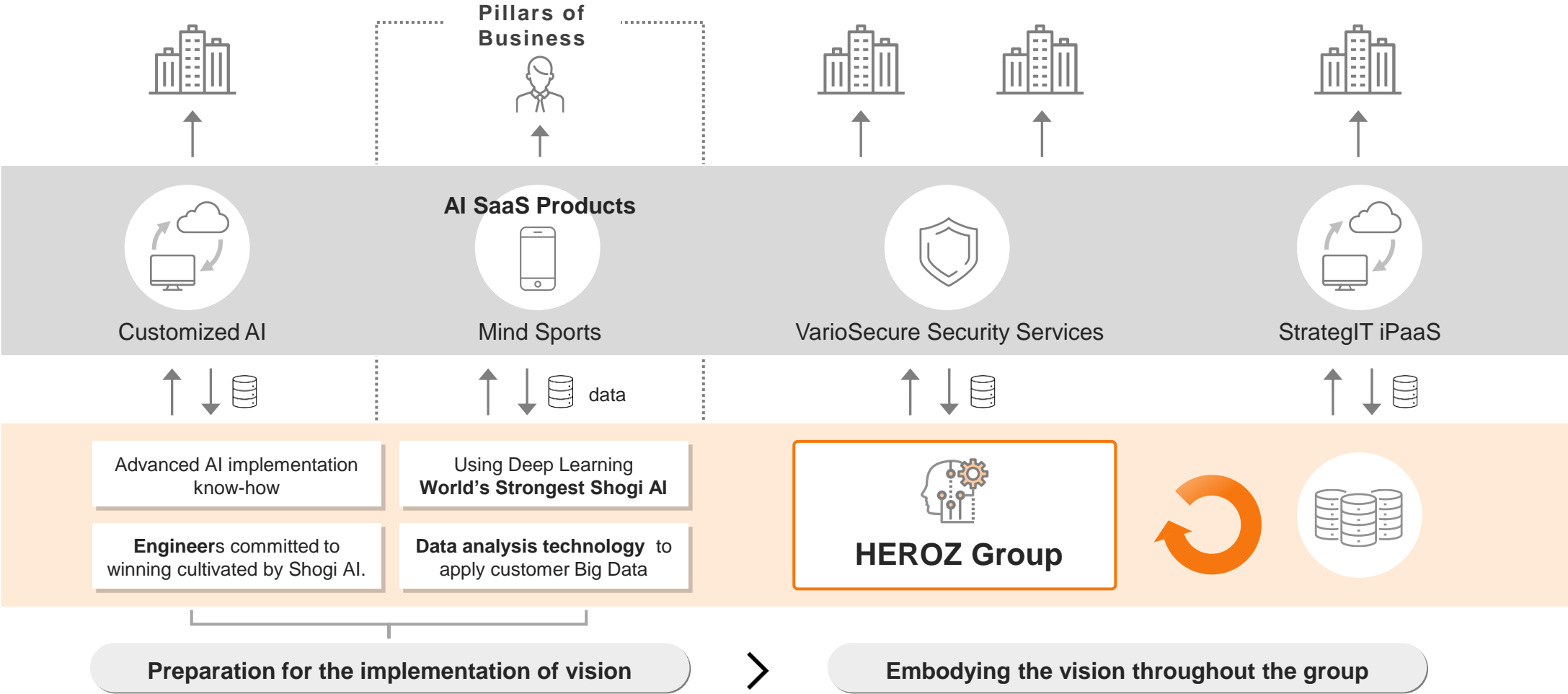
- Based on the knowledge gained from our experience in solving individual customer issues, we will aim for SaaS-type business management driven by intelligence such as our data utilization and AI in the future. (HEROZ 2.0)



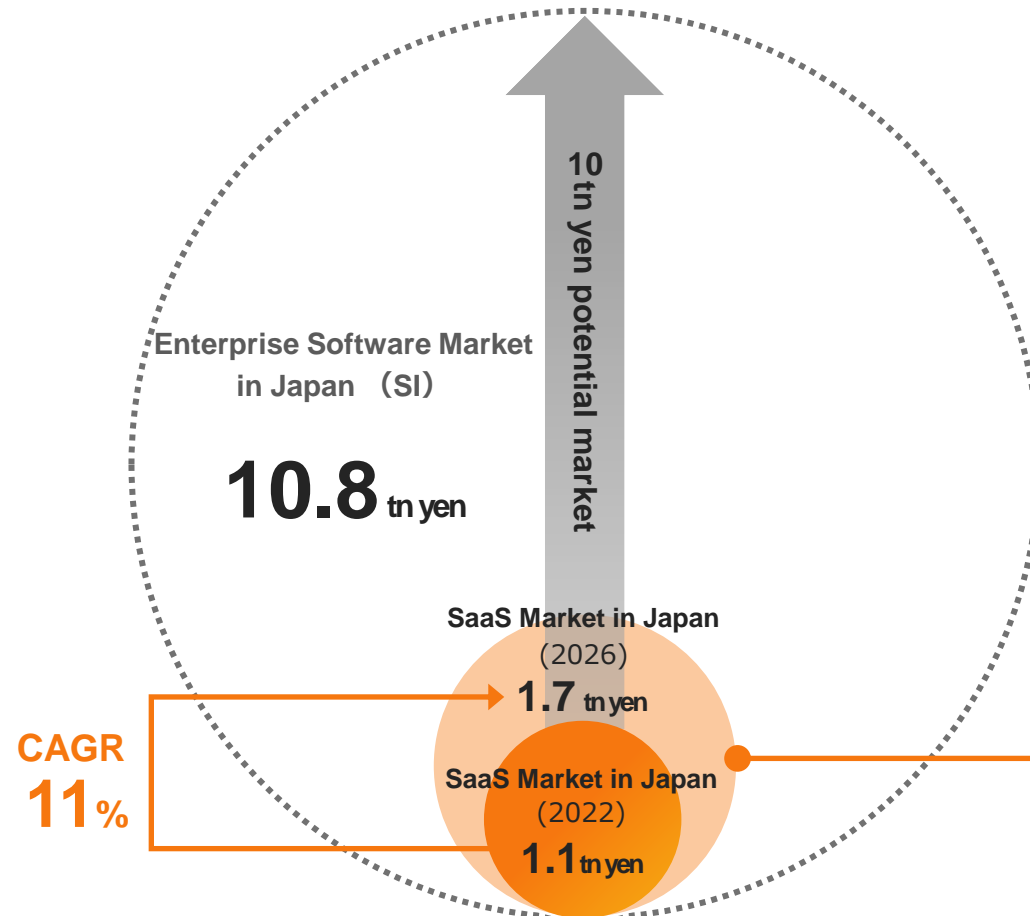
We will expand AI to a wider range of society by realizing intelligent SaaS, utilizing the core technology of algorithm and AI development cultivated through Shogi AI, and the advanced know-how accumulated through solving individual problems.

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

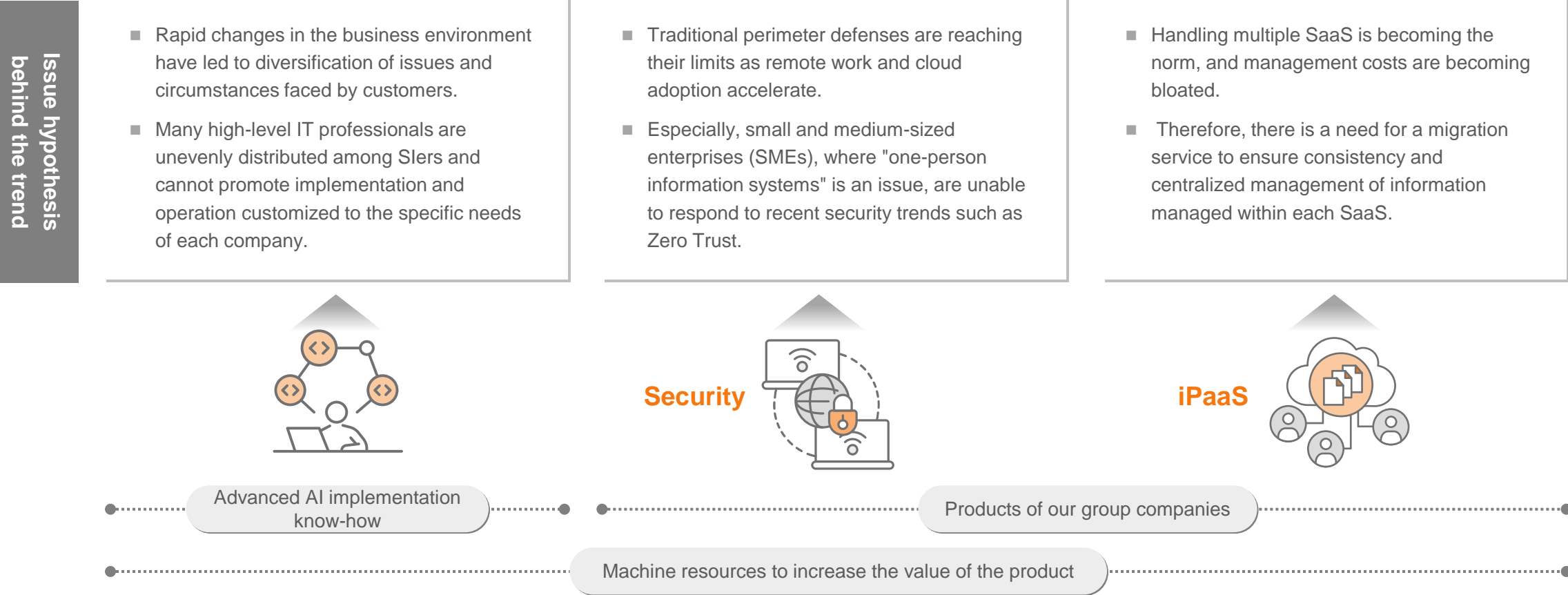
For the foreseeable future, the integration of on-premise and cloud systems is inevitable, and the transition to zero-trust security will be done in phases.

Need for integrated management

Multiple SaaS deployments increase the burden of system management and operations

(Source: IDC Japan Domestic Enterprise IT Market Forecast, Fuji Chimera Research Institute, Software Business New Market 2022 Edition)

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



What we think AI SaaS should be like

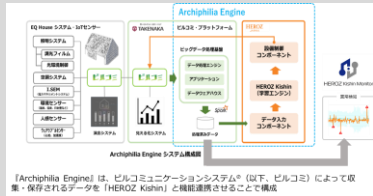
We will support the provision of the ideal SaaS usage environment required by our clients by making full use of our accumulated know-how and technology.



Social implementation of AI with "real-world capabilities" to promote AIX

Accelerate your company's AI Transformation (AIX) by enhancing core operations with AI.

Takenaka Corporation ~Spave Control System~



AI to control the balance between comfort and energy savings

AI to accelerate structural design work



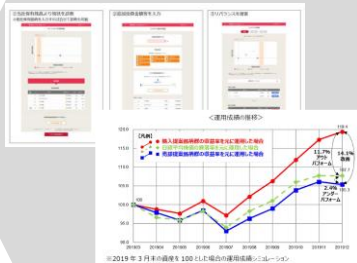
Takenaka Corporation ~ Structural Design ~

Toyo Engineering Corporation ~EPC Toughening System ~



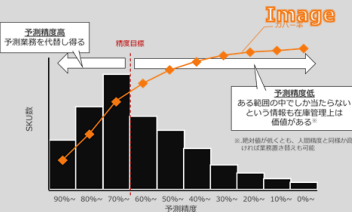
Risk detection AI for constructability

Stock Suggestion AI based on domestic stock holdings



SMBC Nikko Securities Inc. ~ Stock Portfolio Diagnosis ~

IRIS OHYAMA Inc.~ Sales Forecast ~



Sales Forecast AI

Overview of VarioSecure Inc.

Name	VarioSecure Inc.
Established	June 2001
capital	749 million yen
Employees	84
Performance (FY02/2023)(IFRS)	Sales revenue: 2,634 million yen Operating profit: 581 million yen Net income: 383 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	Yasushi Kajiura
Director	Satoshi Yamamori
Director	Hideko Isoe
Director (From HEROZ)	Takahiro Hayashi
Director (From HEROZ)	Keiichi Iguchi
Director (From HEROZ)	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/>

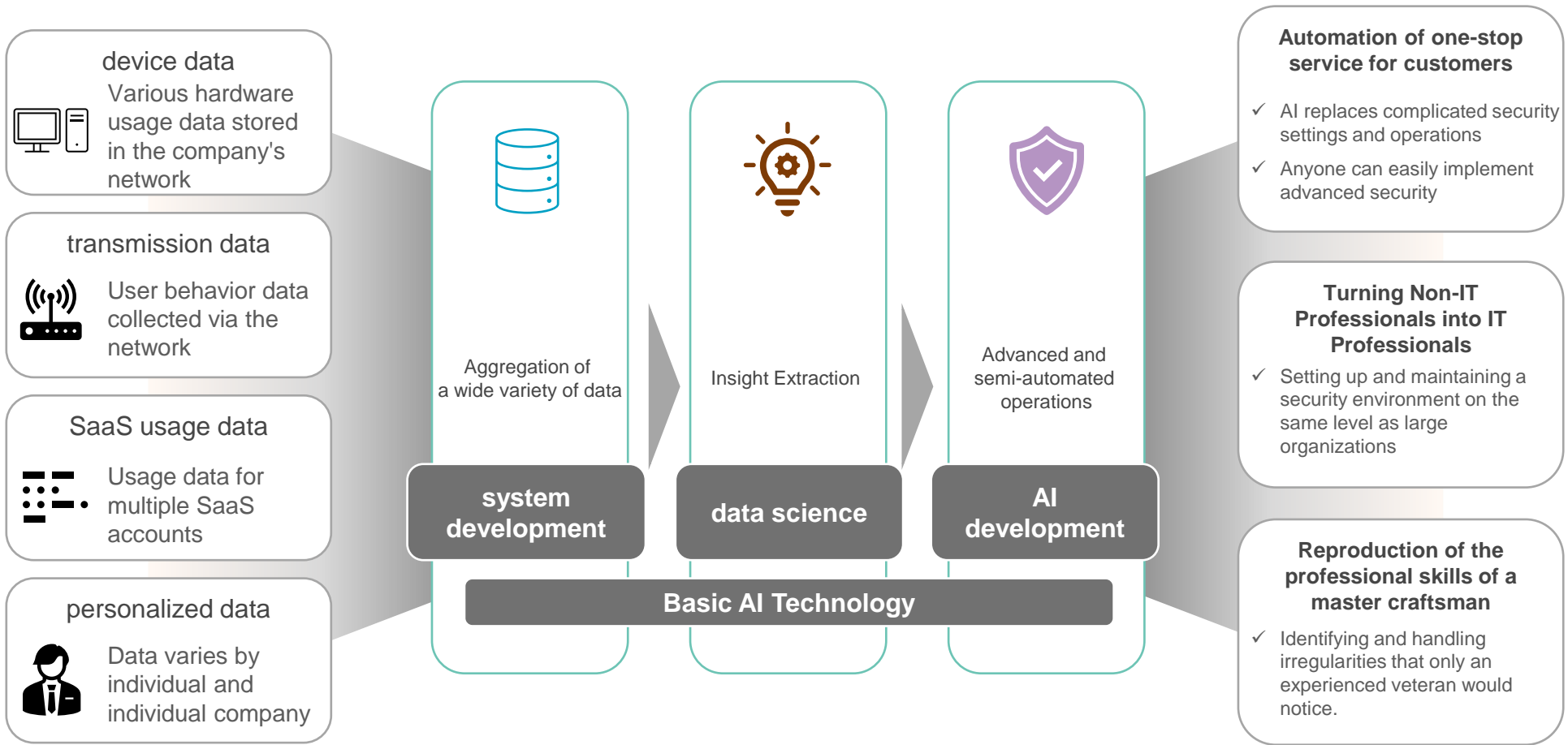
Certification ITSMS (ISO20000) 、 ISMS (ISO27001) 、 privacy mark




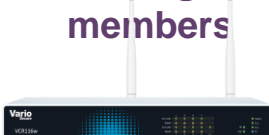



(As of August 31, 2023)

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

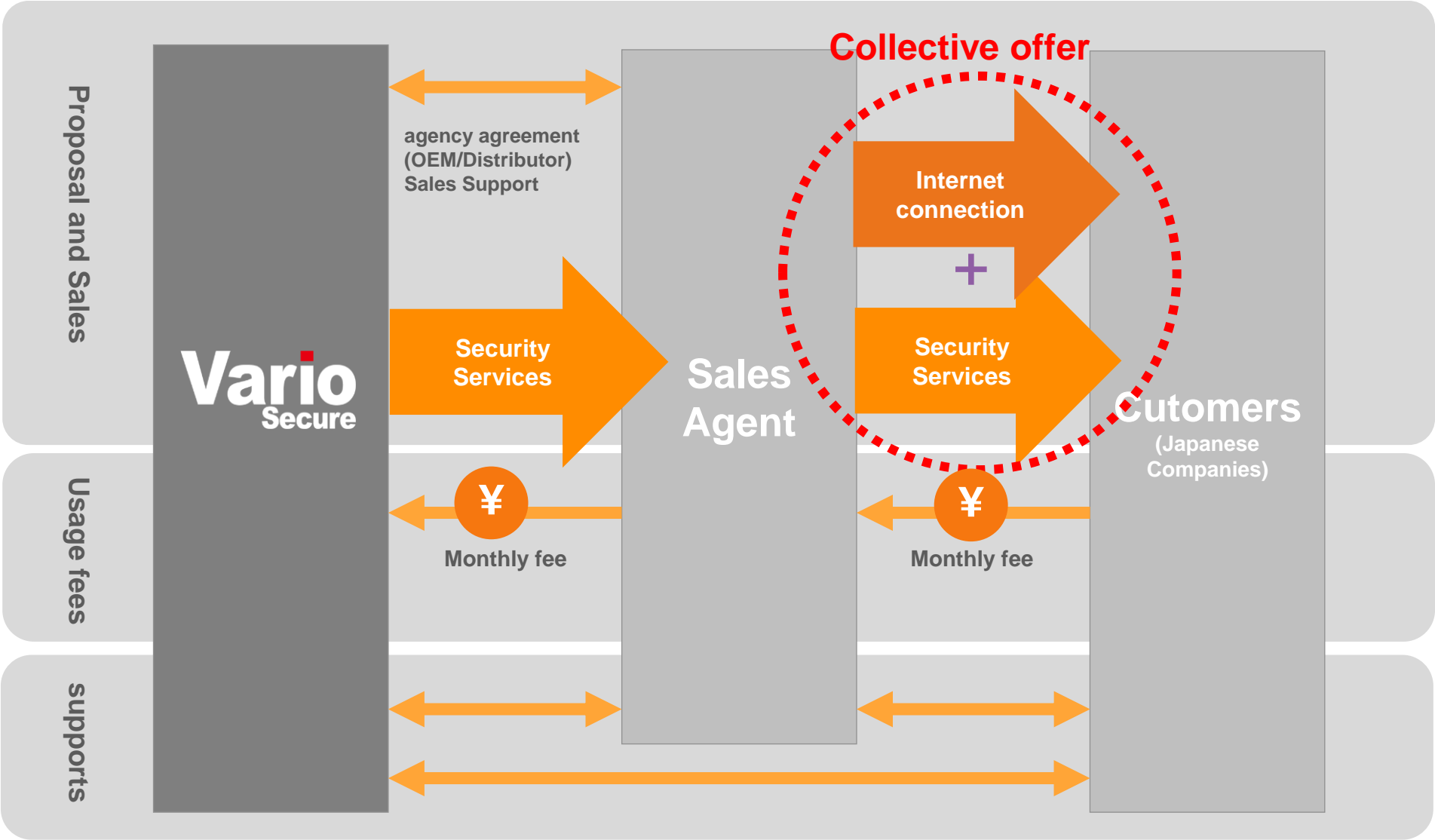


(Reference) Providing services that make Internet use safe and comfortable

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	<div>① Integrated Internet Security Services (Managed type)</div> <div>Protecting Internet Entrances</div> <div> / VariOS</div> <div>Dedicated equipment for managed security serviceS VSR—VarioSecure Router</div>	<div>① Sales of intefrated security equipment for SMEs (Sales type)</div> <div>For organizations with less than 50 members</div> <div> Integrated security equipment for SMEs VCR—VarioCommunicate Router</div>
	<div>Data retention in case of emergency</div> <div>② Data Backup Services</div> <div> Dedicated equipment for data backup services VDaP—Vario Data Protect</div>	<div>② Network Integration Services</div> <div>• Procurement and construction of network equipment</div> <div> Construction of company network (wireless LAN network)</div>
	<div>Rogue Terminal Detection, Vulnerability Management</div> <div>③ Vario-NSS(Network Security Suite)</div> <div> / VariOS</div> <div>Vario EDR</div>	
	<div>Assists in detecting and responding to cyber attacks</div> <div>④ Vario-EDR Services</div>	

(Reference) VarioSecure's business model

- Provided mainly as an adjunct to the Internet connection



Name	StrategIT Inc.
Establish	July,2019
Capital	124 million yen
Employees	25(excludes outsourcing)
Location	PMO Tamachi 7F, 5-31-17 Shiba, Minato-ku, Tokyo
Buisiness	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 (Outside Director)
Director	Takahiro Hayashi (Outside Director)
Director	Hiroya Mori (Outside Director)
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

- 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.