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Notice of Progress and Update on Plan for Compliance with Listing Maintenance Criteria

July 28, 2022

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 Stock exchange listing: Tokyo
 Stock code: 4382 URL <https://www.heroz.co.jp>
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On December 10, 2021, HEROZ, Inc. (the "Company") submitted and disclosed its plan to comply with the Prime Market Listing Maintenance Standards. The Company has prepared the following information regarding the progress of the plan as of April 2022.

I. The Company's compliance with the criteria for maintaining its listing and the period of the plan.

The Company's compliance with the criteria for maintaining prime market listings as of April 2022, including the transition thereof, is as follows.

As of April 30, 2022, "tradable share ratio" and "tradable share market capitalization" were conflict items in the conformity status of the prime market listing maintenance criteria.

The Company will take various actions to meet the criteria for maintaining the listing of both "tradable share ratio" and "tradable share market capitalization" by the end of April 2026.

		tradable share market capitalization (yen)	tradable share ratio (%)
Company's conformity status and transition	As of the transition reference date (June 30, 2021)	13,163,563,703	33.6
	As of April 30, 2022	4,981,954,654	33.6
Prime Market Listing Maintenance Criteria		10 billion yen or more	35% or more
planning period		Fiscal year ending April 2026	Fiscal year ending April 2026

*The Company's conformity status is calculated based on the distribution of the Company's share certificates, etc., which the TSE is aware of as of the base date.

II. Status of Implementation and Evaluation of Efforts to Conform to Listing Maintenance Criteria (December 2021 - April 2022)

(1) Basic Policy

Under the concept of "Surprise to the Heart," the Company provides AI-based services to make people's lives more convenient and enjoyable. The Company will continue to aim to comply with the criteria for maintaining its listing on the prime market by conducting fair and honest business activities while aiming to continuously improve its corporate value. In addition, we will further enhance our corporate governance by strengthening our internal control system in response to the expansion of our business.

(2) About the "tradable share ratio"

• Status of implementation of actions

In the plan submitted on December 10, 2021, the Company granted its employees the 6th Series Stock Acquisition Rights, 7th Series Stock Acquisition Rights, 8th Series Stock Acquisition Rights, and 11th Series Stock Acquisition Rights. The plan stipulates that the Company will improve its corporate value by implementing medium- and long-term growth strategies, create an environment that makes it easier for employees to exercise their stock acquisition rights, and aim to sell the

Company's shares held by some business companies, etc. on the market to further increase the tradable share ratio.

- Evaluation of actions

During the fiscal year ended April 30, 2022, the Company's performance fell short of its projections for sales of AI (B to B) services. As a result, both our sales and EBITDA fell short of our initial forecasts. This resulted in a period of weak stock prices and the exercising of our stock acquisition rights and the market sale of our shares held by certain operating companies and others from December 2021 to the end of April 2022 did not materialize.

(3) About "Tradable Share Market Capitalization"

As of June 30, 2022, the total market capitalization of tradable shares was 4.9 billion yen, which violates the criteria of 10 billion yen or more required by the prime market listing maintenance standards. In addition to improving its "tradable share ratio," the Company intends to improve its corporate value through the realization of its medium- to long-term strategy by realizing its growth strategy in AI (BtoB) services, which has become an issue for the Company. In the period of the plan, we expect to improve sales by the fiscal year ending April 2026 by executing the business strategies described in III (2), and we intend to achieve a market capitalization of 10 billion yen or more by the same period.

III. Future issues and actions to be taken based on the past status of each item that is not in compliance with the criteria for the listing maintaining

(1) About the "tradable share ratio"

- Future issues

In the fiscal year ending April 2022, while the AI (BtoC) service continued to achieve solid and stable growth, the AI (BtoB) service was affected by the suspension of game operations added to our AI and delays in obtaining initial setup fees, resulting in a 17.4% decrease in net sales from the previous year. EBITDA, which we emphasize as an indicator, also decreased due to the impact of the decline in net sales, and we were unable to achieve an increase in corporate value, resulting in an inadequate environment that facilitates the exercise of stock acquisition rights by our employees.

- Details of issue Initiatives

During the plan period (through the fiscal year ending April 2026), the Company will continue to promote the exercise of existing stock acquisition rights, as well as to increase the "tradable share ratio" through the establishment of new stock acquisition rights and the market sale of Company shares held by certain operating companies and others.

(2) About "Tradable Share Market Capitalization"

- Future issues

In addition to improving the "tradable share ratio," we recognize that our challenge is to realize an increase in the Company's corporate value.

- Details of issue Initiatives

In addition to improving our "tradable share ratio," we will promote the enhancement of our corporate value.

Specifically, in AI (BtoC) services, in addition to achieving stable business growth centered on Shogi Wars, the Company will also develop the AI SaaS-type "Kishin Analytics," which is equipped with "dlshogi with HEROZ," the winner of the World Computer Shogi Championship in May 2022, will be fully deployed during the fiscal year ending April 2023, and we will achieve business growth by leveraging our superiority in the Shogi field. We will set MAU (Monthly Active User) as a KPI that we will specifically focus on.

In the AI (BtoB) service, which is an issue for us, we have been promoting AI (BtoB) services to solve various issues of customers as a group of engineers with advanced technologies. However, since the company was concerned with its highly skilled engineering team and did not focus on client acquisition activities, sales growth peaked in the fiscal year ended April 2020 and sales have been declining due to the termination of existing projects. Therefore, we have now shifted from our previous strategy and launched a sales and marketing organization by May 2022, with the fiscal year ending April 2022 as a period of organizational reform.

Going forward, we will focus on deepening existing customers and cultivating new customers by strengthening customer development activities, and we intend to achieve sales growth in the fiscal year ending April 2023. In May 2022, the Company also exhibited at AI EXPO for the first time to raise its BtoB visibility and strengthen customer development. As specific KPIs that we will focus on, we will set the number of clients, utilization rate of our engineers, and sales per engineer.