

## 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.

# HEROZ

Presentation Material for  
FY04/2023 Q2 Financial Results

December 9, 2022

HEROZ, Inc. (4382)

# Contents

- 1 . Financial Highlights
- 2 . HEROZ Group Strategy
- 3 . Initiatives for Group Synergies
- 4 . FY04/2023 Q2 Performance
- 5 . Revision of Earnings Forecast FY 04/2023



# Highlights

# Highlights

## FY04/2023 1<sup>st</sup> Half Performance Summary

- Net sales were 765 million yen (+5.0%), EBITDA was 94 million yen (+34.9%), and Operating profit was 37 million yen \* Figures in parentheses ( ) are YoY comparisons.
- AI (B to C) service using the world's best Shogi AI based on machine learning, in addition to the stable growth of Shogi Wars, newly released Kishin Analytics light plan on December 1<sup>st</sup>. Expanding business by leveraging the strength of Shogi AI.
- With the launch of the sales organization, AI (B to B) services have exceeded the previous year's level. On the other hand, we plan to reconstruct our deployment areas and strengths, and promote business according to our AI SaaS strategy.

## Promoting of PMI

- VarioSecure and StrategIT consolidated in the second quarter of this year.
- To create group synergies including the above two companies, a steering committee will be formed to promote measures to create anticipated synergies in the areas of sales, technology, and corporate.
- Cost reductions are expected to be achieved through office consolidation and joint procurement of various systems, etc.

## Update on Full-Year Earnings Forecasts

- Revised full-year forecast for the fiscal year ending April 2023 disclosed.
- Net sales were revised from the previous forecast of 3.1 billion yen to 2.9 billion yen due to a change in the accounting period of StrategIT and an increase in internal transactions due to mutual use of engineers among group companies.
- The company has completed a thorough review of various consolidation issues and has revised its earnings forecast to EBITDA of 550 million yen, Operating profit of 250 million yen, and net income attributable to the parent company of -590 million yen
- As an extraordinary loss, a one-time phased acquisition loss of 541 million yen was recorded in connection with the consolidation of VarioSecure.



# HEROZ Group Strategy

# Company Overview

**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 Japanese Society for Artificial Intelligence

**2022**

Moved to the Tokyo Stock Exchange Prime Market  
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.

**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"



Representative Director and Co-CEO  
**Takahiro Hayashi**

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

## Shogi Track Record

Amateur 6<sup>th</sup> dan (highest rank after becoming national amateur champion)  
7<sup>th</sup> dan, Shogi Wars  
Amateur Kisen Champion (7-time title defender as national champion)  
Played against Yoshiharu Habu (permanent 7 title holder)



Representative Director and Co-CEO  
**Tomohiro Takahashi**

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

Director and CTO

## Keiichi Iguchi

Graduated from Tokyo Institute of Technology  
Joined NEC Central Research Labs

Operating officer and 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 and CSO

## Kyota Seki

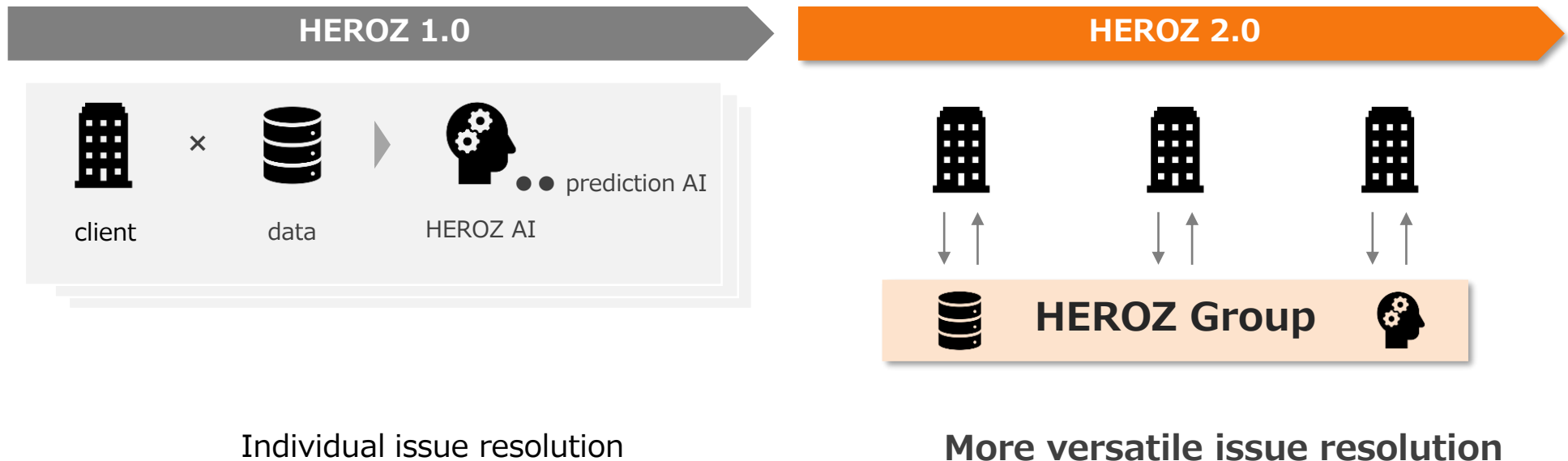
Graduated with a Master's degree from the University of Tokyo  
Joined Panasonic Corporation and Deloitte Tohmatsu Consulting G.K.  
Involved in projects such as new business strategy development

## Our Vision

**Creating the future through  
artificial intelligence (AI)  
revolutions**

# HEROZ Group Strategy → To HEROZ 2.0

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)

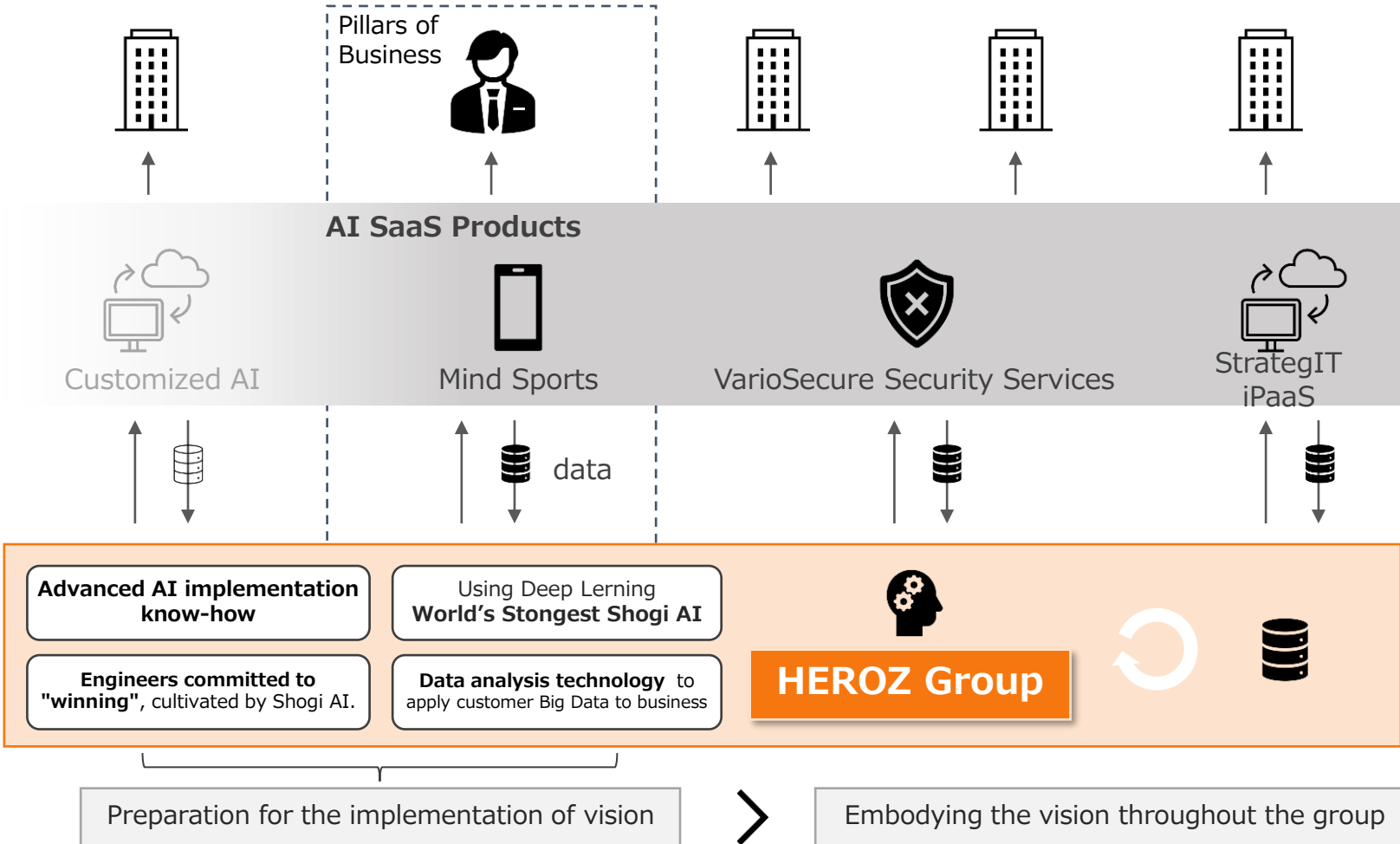


We will expand AI to a wider range of society by realizing intelligent SaaS, utilizing the core technology of algorithm and AI development cultivated through Shogi AI, and the advanced know-how accumulated through solving individual problems.



# 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.

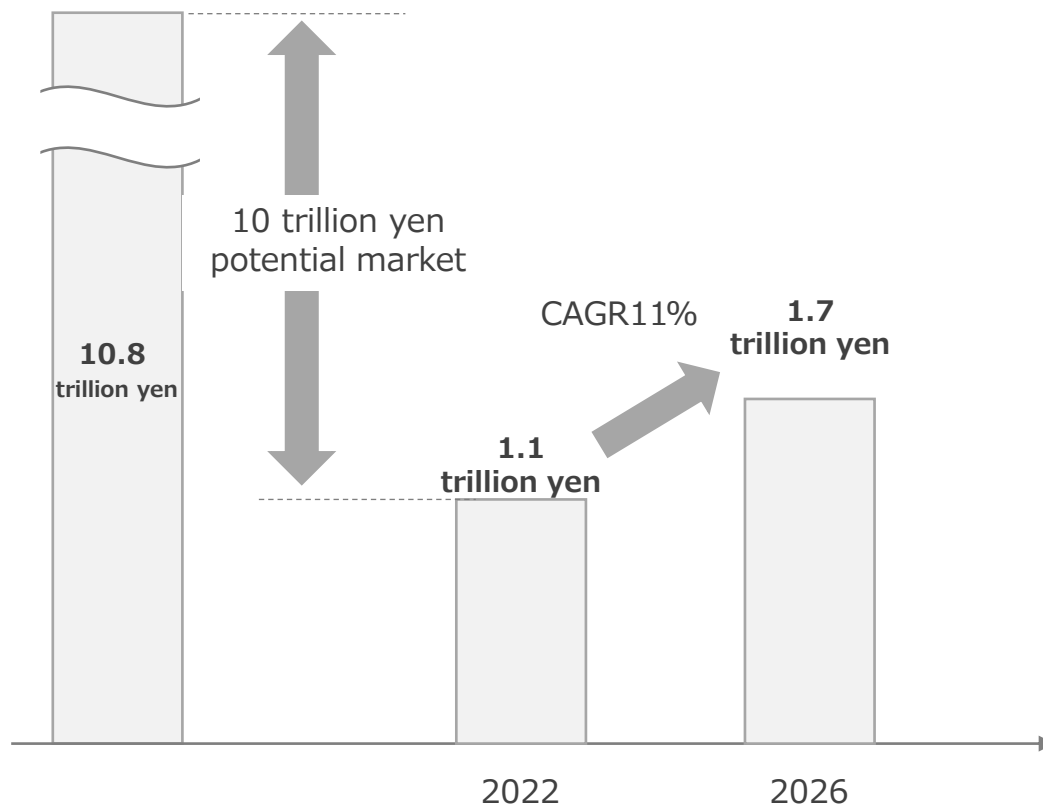


# Aspect of the SaaS market and our views of the major trends

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

## Enterprise Software Market in Japan (SI)

## SaaS Market in Japan



## What we view as 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

# Our perception of the challenges of implementing SaaS

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 SIers and cannot promote implementation and operation customized to the specific needs of each company.

## 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.

## Need for integrated management

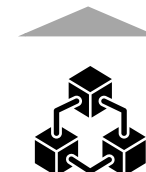
- Handling multiple SaaS is becoming the norm, and management costs are becoming bloated
- Therefore, there is a need for a migration service to ensure consistency and centralized management of information managed within each SaaS.



Advanced AI implementation know-how



Security



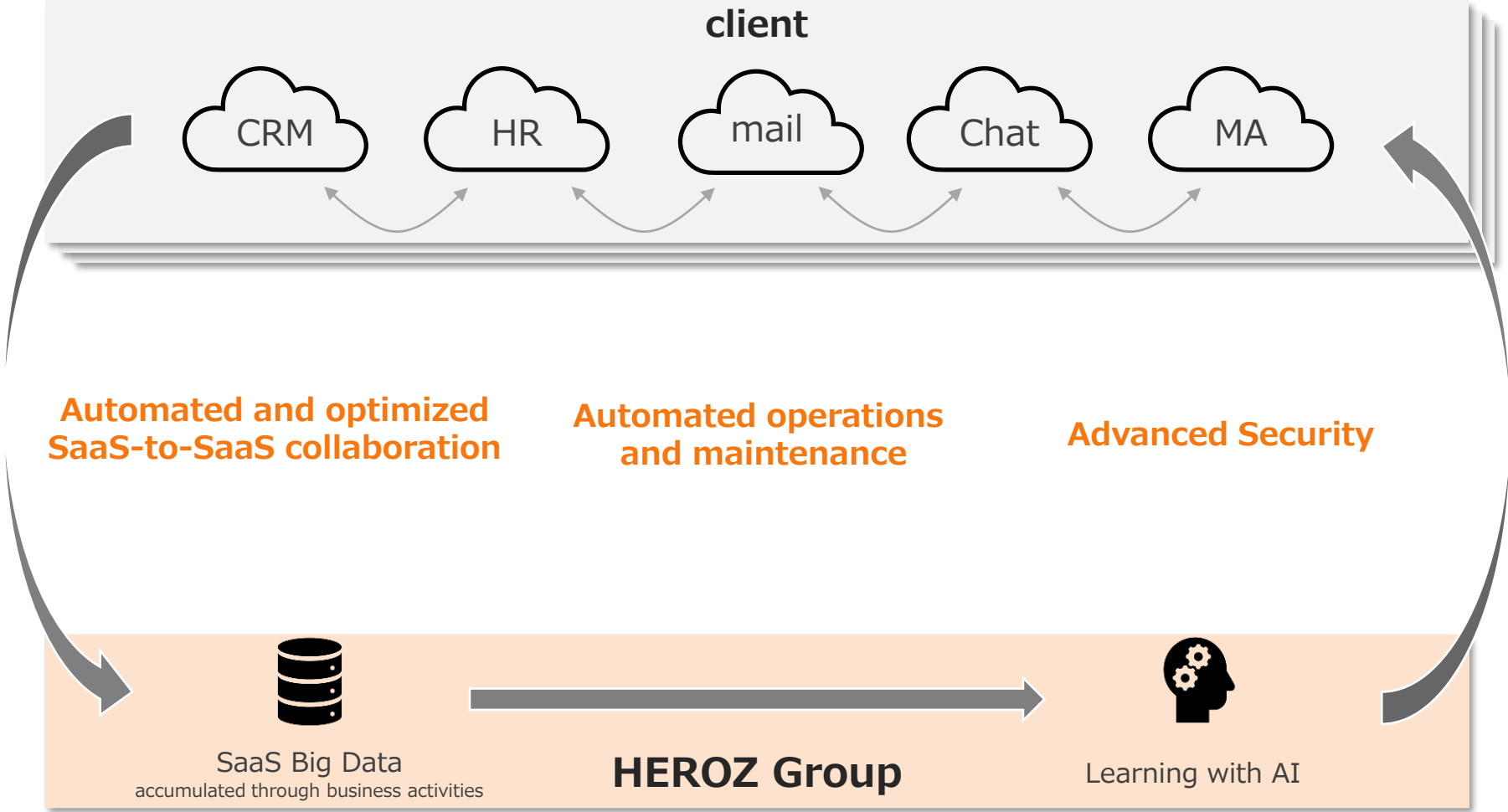
iPaaS

Products of our group companies

Machine resources to increase the value of the product

# 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.



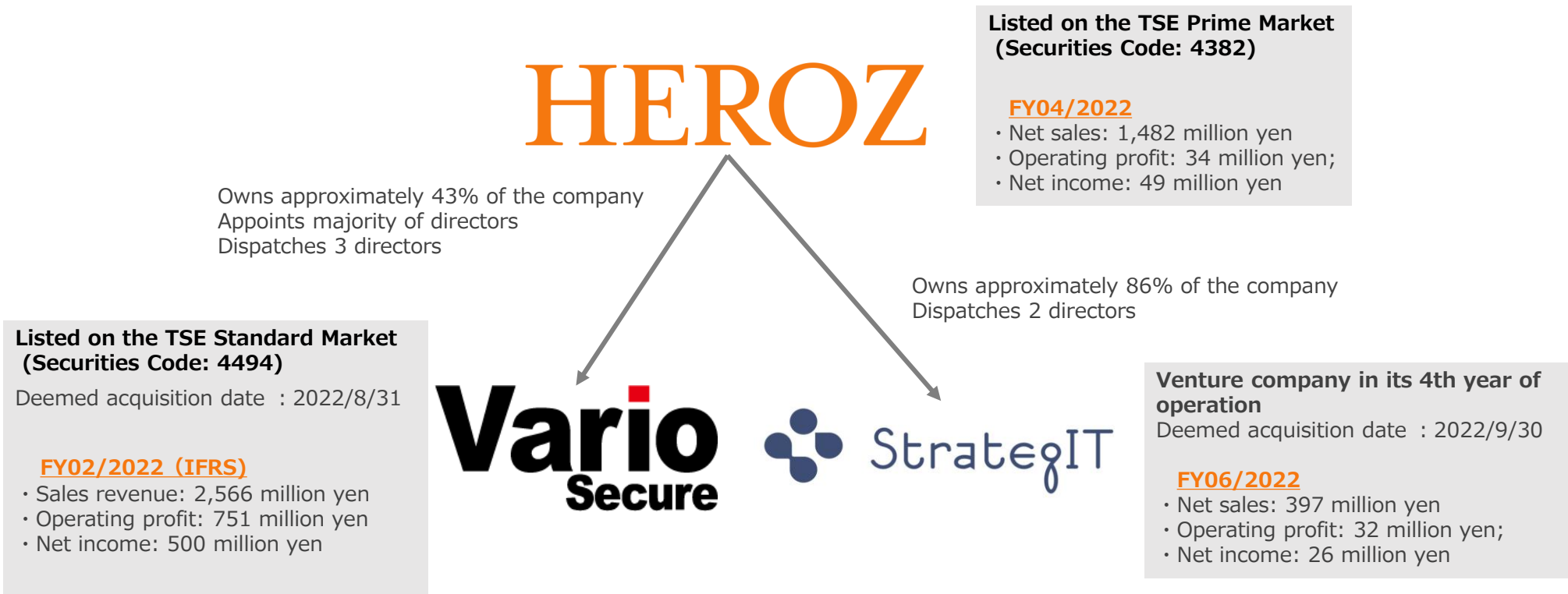


## Initiatives for Group Synergies

# 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)



# Group Business Structure

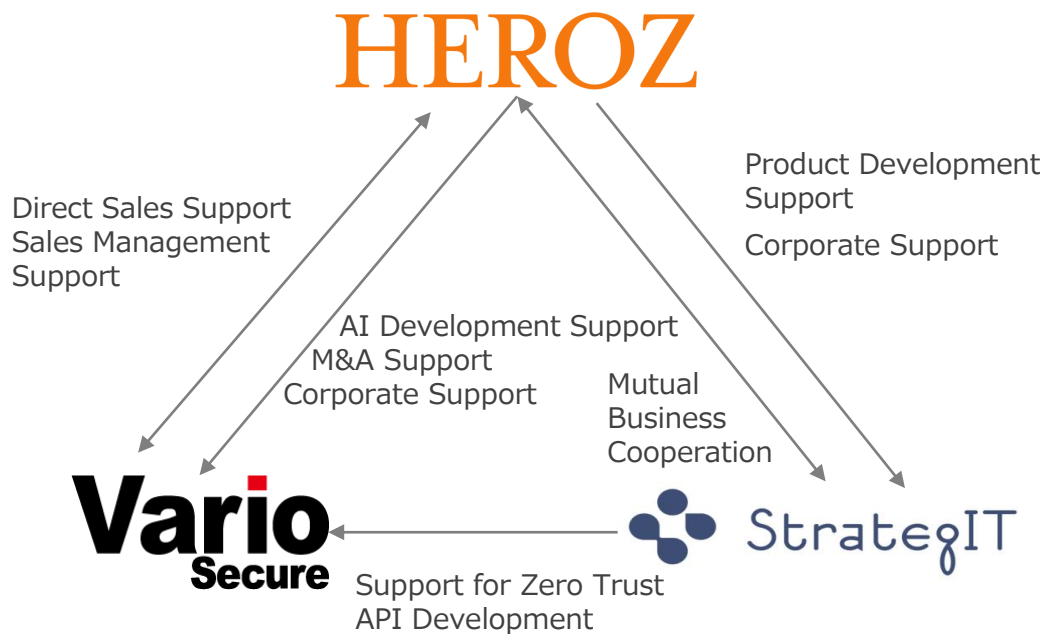
MAU : Monthly Active User  
 MPU : Monthly Paid User  
 ARPPU : Average Revenue Per Paid User

|                   |   |   |  |  |
|-------------------|---|---|--|--|
| 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><b><u>Recurring revenue</u></b></p> <ul style="list-style-type: none"> <li>• MAU ※1</li> <li>• billing rate</li> <li>• MPU※2</li> <li>• ARPPU※3</li> </ul>   | <p><b><u>Recurring revenue and Contracted development revenue</u></b></p> <ul style="list-style-type: none"> <li>• Recurring revenue</li> <li>• number of customers</li> <li>• number of employees</li> <li>• utilization rate/unit cost</li> <li>• revenue per employee</li> </ul> | <p><b><u>Recurring revenue and Contracted development revenue</u></b></p> <ul style="list-style-type: none"> <li>• number of customers</li> <li>• number of employees</li> <li>• utilization rate/unit cost</li> <li>• revenue per employee</li> <li>• number of apps acquired/churned</li> <li>• ARPPU※3</li> </ul> | <p><b><u>Recurring revenue</u></b></p> <ul style="list-style-type: none"> <li>• number of customers</li> <li>• Number of customers acquired/churned</li> <li>• revenue per customer</li> </ul>                 |

# Pursuit of Group Synergies

With the transition to group management, establish a structure to realize group synergies.

Synergies among groups  
envisioned to realize AI SaaS



Establish the following structure to realize the anticipated group synergies.

- **Group Strategy Meeting**  
Monitoring the realization of anticipated synergies
- **Group Business Meeting**  
Provide mutual sales development support
- **Group Technology Meeting**  
Mutual technical and system support and exchange of engineers
- **Group CSE\* Meeting**  
Reduction of system-related costs
- **Group Corporate Meeting**  
Pursuit of cost synergies in the Group  
Group Corporate Support  
Group M&A Support





# FY04/2023 1<sup>st</sup> Half Performance

## Our Key Performance Indicator

- We believe that EBITDA, as calculated below, is our key performance indicator.

$$\text{EBITDA} = \text{Operating Profit} + \text{Depreciation/Amortization Expenses}$$

- Growing AI-related business requires investment in servers for advanced machine learning, etc., and incurs various depreciation expenses.
- In addition, amortization of goodwill due to M&A implementation is expected to occur in the future.
- We aim to sustainably increase corporate and equity value through EBITDA growth without being affected by various one-time amortization burdens.
- Depreciation of investments in servers for machine learning is mainly based on the declining-balance method with a useful life of 5 years.
- Amortization period of goodwill (amount)  
14 years (2,179 million yen) for VarioSecure, 9 years (219 million yen) for StrategIT.

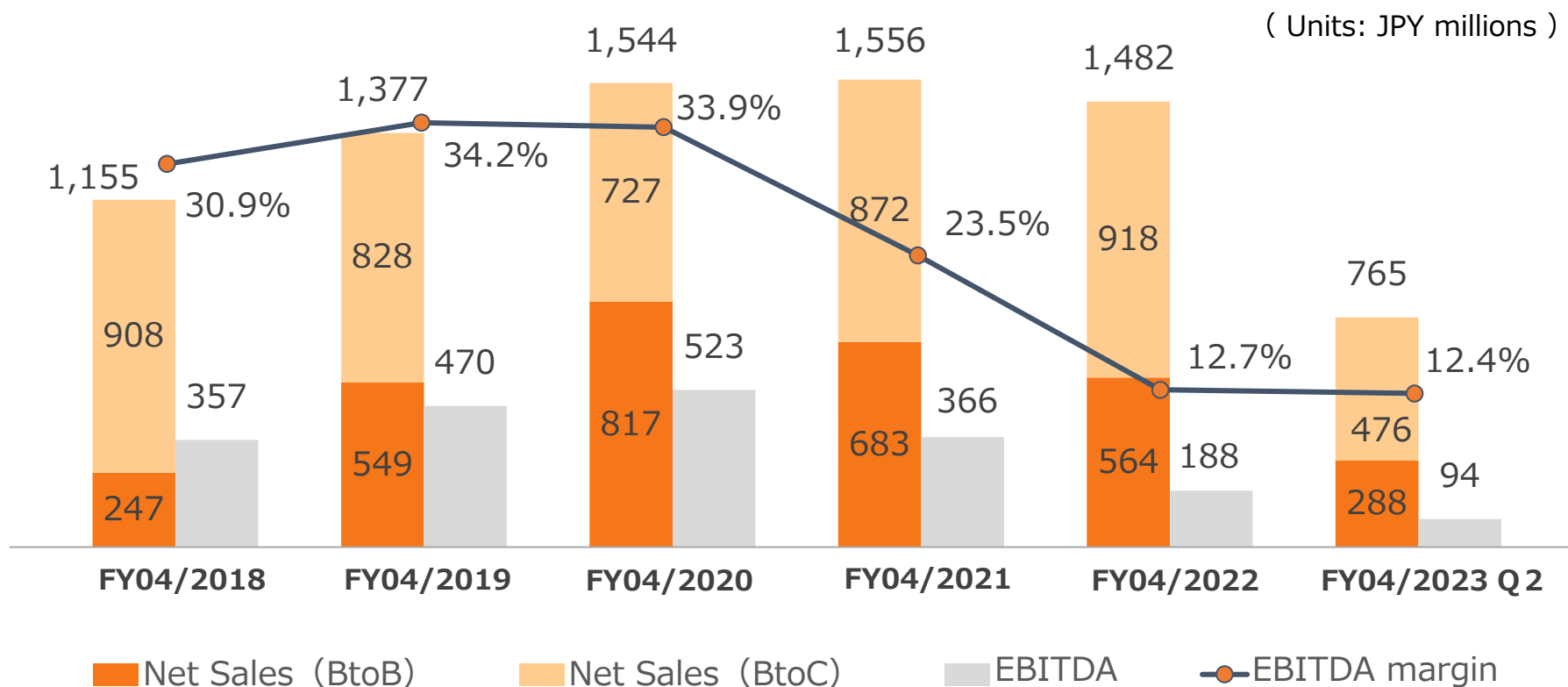
# Performance Overview (May 2022-October 2022)

- Our sales peaked in FY04/2020 and have continued to decline through the previous fiscal year, but has once again shifted to a growth path, realizing a 5.0% increase in net sales in 1<sup>st</sup> Half FY04/2023 compared to the same period of the previous year.
- Operating Profit also exceeded last year's results.
- Net loss attributable to owners of the parent was -513 million yen due to a one-time extraordinary loss of 541 million yen related to the step acquisition of VarioSecure as a consolidated subsidiary.

| (Units: JPY millions)  | FY04/2023<br>1 <sup>st</sup> Half<br>Actual | (Reference)<br>FY04/2022<br>1 <sup>st</sup> Half<br>Actual | YoY<br>(%) |
|--|---|--|------------|
| Net Sales  | 765   | 729  | +5.0%      |
| EBITDA*  | 94  | 70   | +34.9%     |
| <i>EBITDA Margin</i>   | <i>12.4%</i>                                | <i>9.6%</i>  | —          |
| Operating Profit   | 37  | -6   | —          |
| <i>Operating Margin</i>                                      | <i>4.9%</i>                                 | <i>-0.8%</i>   | —          |
| Ordinary Profit  | 38  | -12  | —          |
| Net Income (loss)<br>attributable to<br>owners of the parent | -513  | -10  | —          |

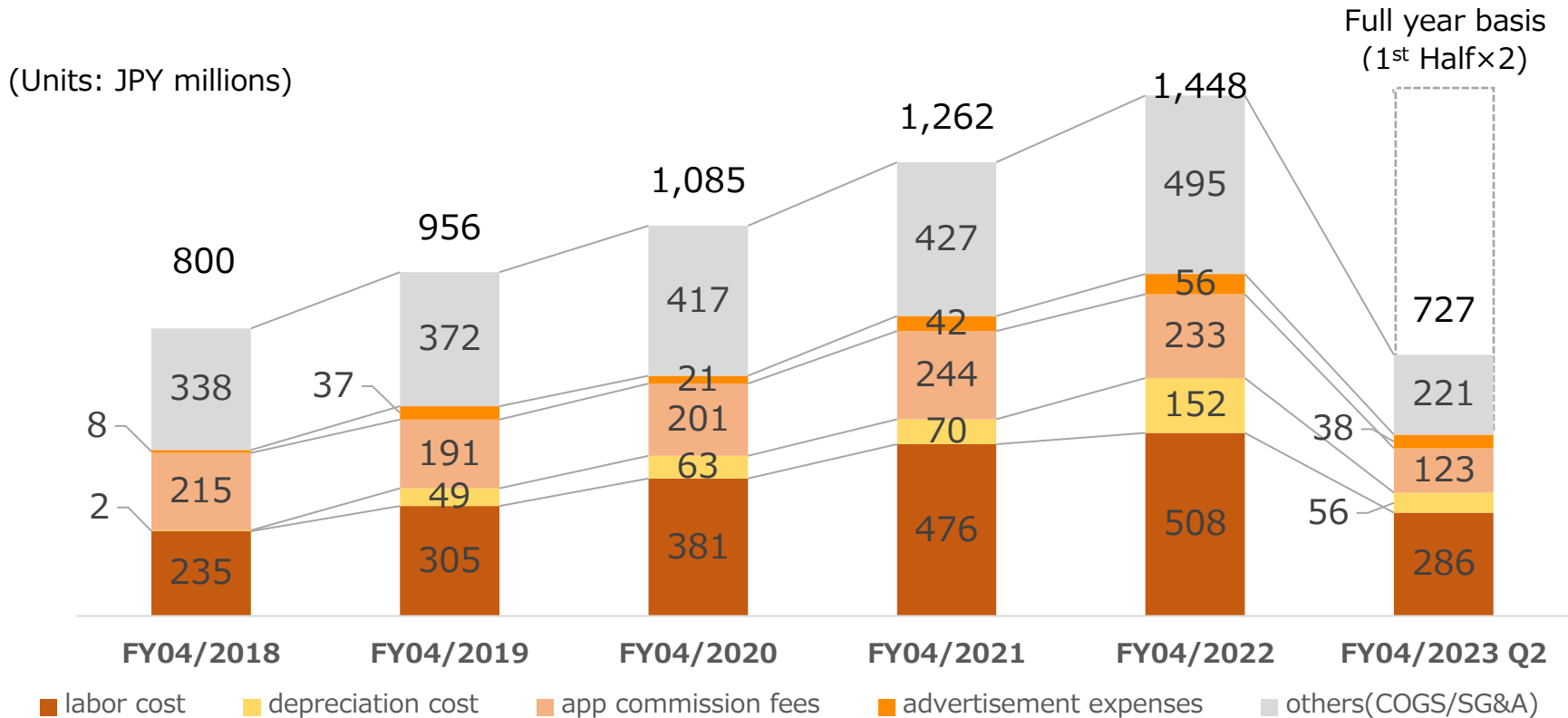
# Net sales and EBITDA Trends

- AI (BtoB) service sales increased 11.3% YoY on a Q2 standalone basis due to the effect of large project orders and increased recurring revenue following the establishment of a new sales and marketing organization.
- AI (BtoC) service sales increased 0.2% yoy in the 2Q on standalone basis due to continued stable revenue from "Shogi Wars" and expanded service offerings such as the release of "Kishin Analytics" in May 2022, which supports Shogi AI research by professional Shogi players using Shogi AI.



# COGS and SG&A Trends

- Until the previous fiscal year, the company had invested aggressively in cost of goods, general and administrative expenses, including depreciation associated with the purchase of servers and other equipment for machine learning, an increase in personnel hiring expenses, and an increase in R&D expenses, but the investments have run their course, and costs this fiscal year are on last year's basis. (1<sup>st</sup> half 727 million yen x 2 = 1,454 million yen (full year basis))
- Appropriate cost controls will continue to be implemented.



## Balance Sheet (as of October 31, 2022)

- We plan to use the cash and deposits we currently hold for investments to realize our mid- to long-term growth strategy.
- As part of this effort, the company invested approximately 1.1 billion yen in the acquisition of StrategIT shares and the underwriting of a capital increase through a third-party allocation of new shares by VarioSecure.
- Since the subscription of 800 million yen for the capital increase of VarioSecure will increase the subsidiary's cash and cash equivalents and will only be transferred within the consolidation, the level of cash and cash equivalents remains almost the same as the level at the end of the last fiscal year.

| Units: JPY millions           | As of 10/31/2022 | As of 4/30/2022 |
|-------------------------------|------------------|-----------------|
| Current Assets                | 5,016            | 3,959           |
| Cash and deposits             | 3,697            | 3,660           |
| Fixed Assets                  | 3,835            | 2,675           |
| Property, plant and equipment | 293              | 260             |
| Intangible assets             | 2,706            | 25              |
| Investments and other assets  | 835              | 2,390           |
| <b>Total Assets</b>           | <b>8,851</b>     | <b>6,635</b>    |
| Current Liabilities           | 1,043            | 194             |
| Fixed Liabilities             | 1,758            | –               |
| <b>Net Assets</b>             | <b>6,049</b>     | <b>6,440</b>    |



# Revision of Earnings Forecast FY04/2023

# Transition to Consolidated Financial Results

- The Company shifted to consolidated accounts following the acquisition of StrategIT shares on August 31 and the subscription to a third-party allotment of new shares by VarioSecure on September 27.
- In the consolidated financial results for the second quarter of the fiscal year ending April 30, 2023, the two companies that became consolidated subsidiaries were consolidated only on the balance sheet.
- Contribution to the consolidated income statement is scheduled to begin in the third quarter of the fiscal year ending April 30, 2023.

## This Financial Results

|             | Q1                                 | Q2                                     | Q3  | Q4 |
|-------------|------------------------------------|--|---|----|
| HEROZ       | Non-Consolidated Financial Results | Transition to consolidated accounting  |   |    |
| StrategIT   | —                                  | Only the balance sheet is consolidated | Both Profit and Loss statement and balance sheet are consolidated |    |
| VarioSecure | —                                  | Only the balance sheet is consolidated | Both Profit and Loss statement and balance sheet are consolidated |    |



# Revision of Earning Forecast for FY04/2023

- Full-year forecasts were announced in the Sep. 9, 2022 financial results announcement in conjunction with the transition to consolidated accounting. However, due to the change in the accounting period of StrategIT and the increase in internal transactions through mutual use of engineers to create synergies, we have revised consolidated sales for the current fiscal year to 2.9 billion yen.
- EBITDA is expected to be 550 million yen, a significant increase from last year's results of 180 million yen.
- The acquisition of VarioSecure was done in stages and a loss of 540 million yen was recorded in accordance with the consolidation accounting standards. It will be a one-time expense.

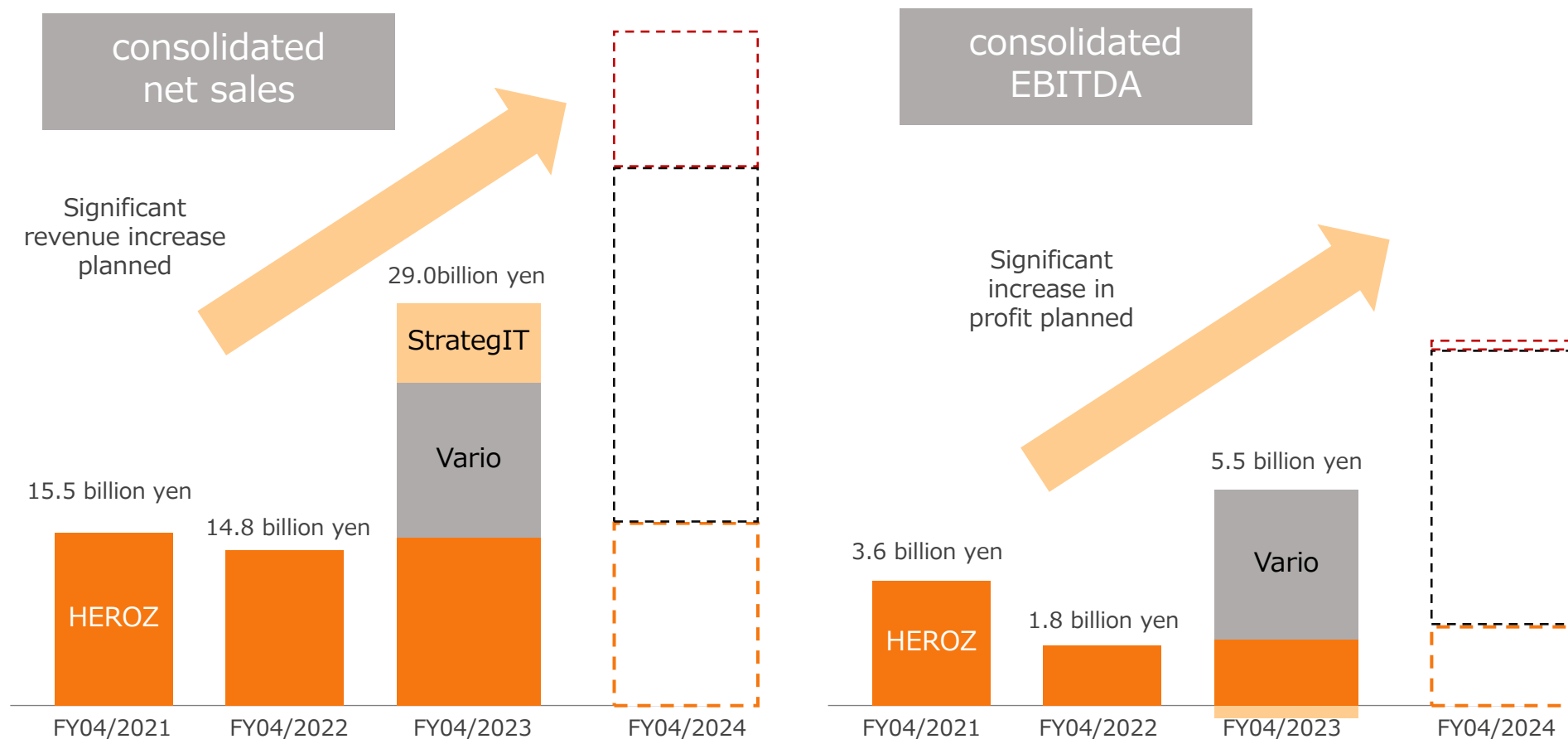
## Forecast of Consolidated Financial Results for FY04/2023 (May 1, 2022 - April 30, 2023)

| (JPY millions)                           | Net sales | EBITDA          | Operating Profit | Ordinary Profit | Net Income      | Net Income per share (JPY) |
|--|-----------|-----------------|------------------|-----------------|-----------------|----------------------------|
| FY 04/2023<br>(announced at this time)   | 2,900     | 550             | 250              | 200             | -590            | -39.26                     |
| FY 04/2023<br>(announced on Sept.9,2022) | 3,100     | Under Reviewing | Under Reviewing  | Under Reviewing | Under Reviewing | Under Reviewing            |
| (Actual)<br>FY 04/2022                   | 1,482     | 188             | 34               | 87              | 49              | 3.29                       |

※ Actual non-consolidated results for the fiscal year ending April 30, 2022.

# Trends in the Group's Business Performance

- For the current fiscal year (FY2023/4), the two consolidated companies will be consolidated only for the half-year period, and the forecasts for sales and EBITDA have been revised to 2.9 billion yen and 550 million yen, respectively.
- In the next fiscal year (FY24/4), the two consolidated companies will fully contribute to the consolidation, and both sales and EBITDA are expected to increase significantly.  
(Details will be disclosed at the time of the announcement in June 2023)





# Reference Materials

# Global Leader in Mind Game AI

## 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

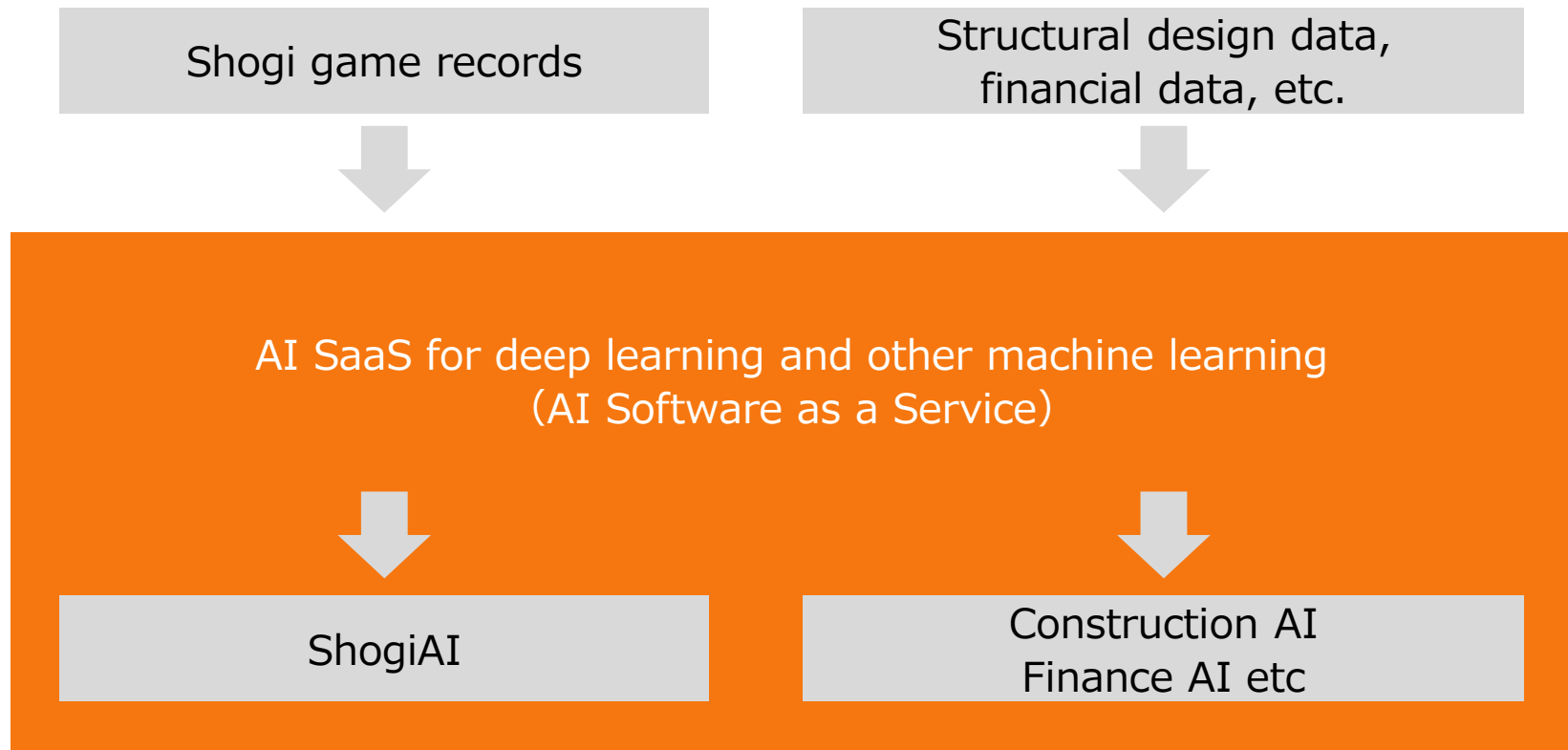


Google acquired Deep Mind ('14) AlphaGo, developed by Deep Mind, defeated a professional Go player ('16)

**Google**

# AI SaaS (AI Software as a Service)

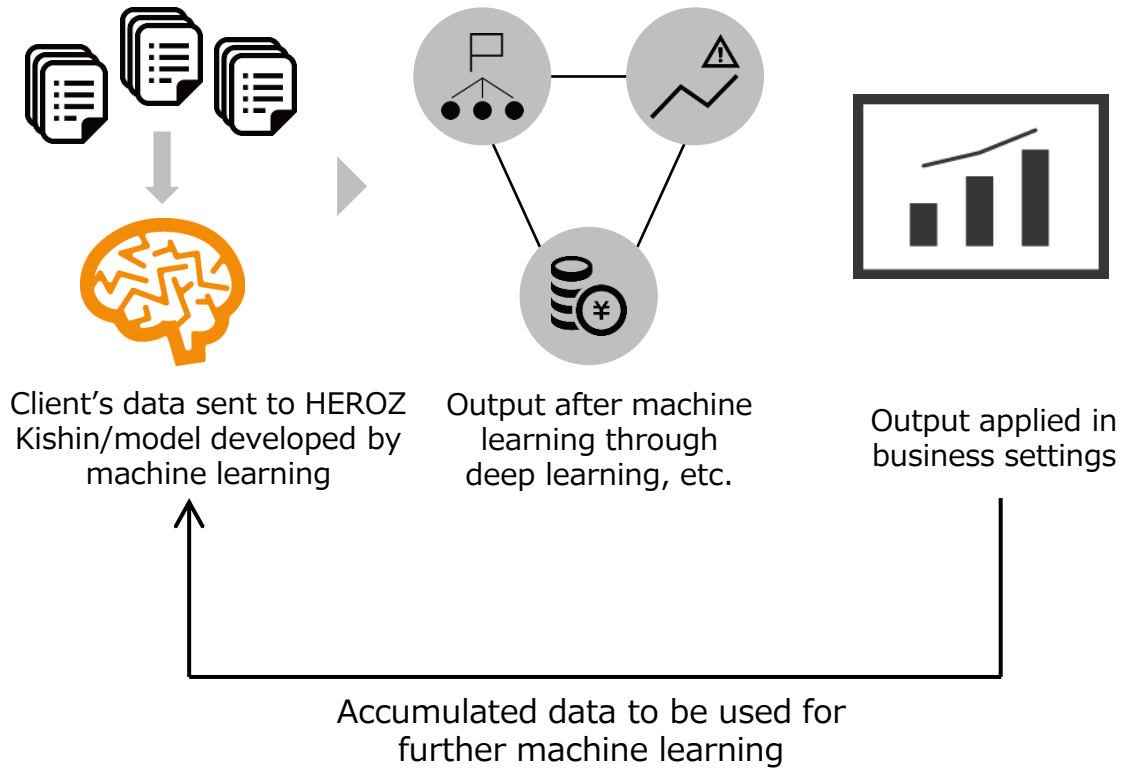
Developing our AI construction capabilities cultivated through machine learning using deep learning of vast Shogi game data in the construction, finance, entertainment, and other fields



AI SaaS : AI Software as a Service is

“Business model that provides models built by machine learning/deep learning as a service”

# Profitability of AI SaaS



**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

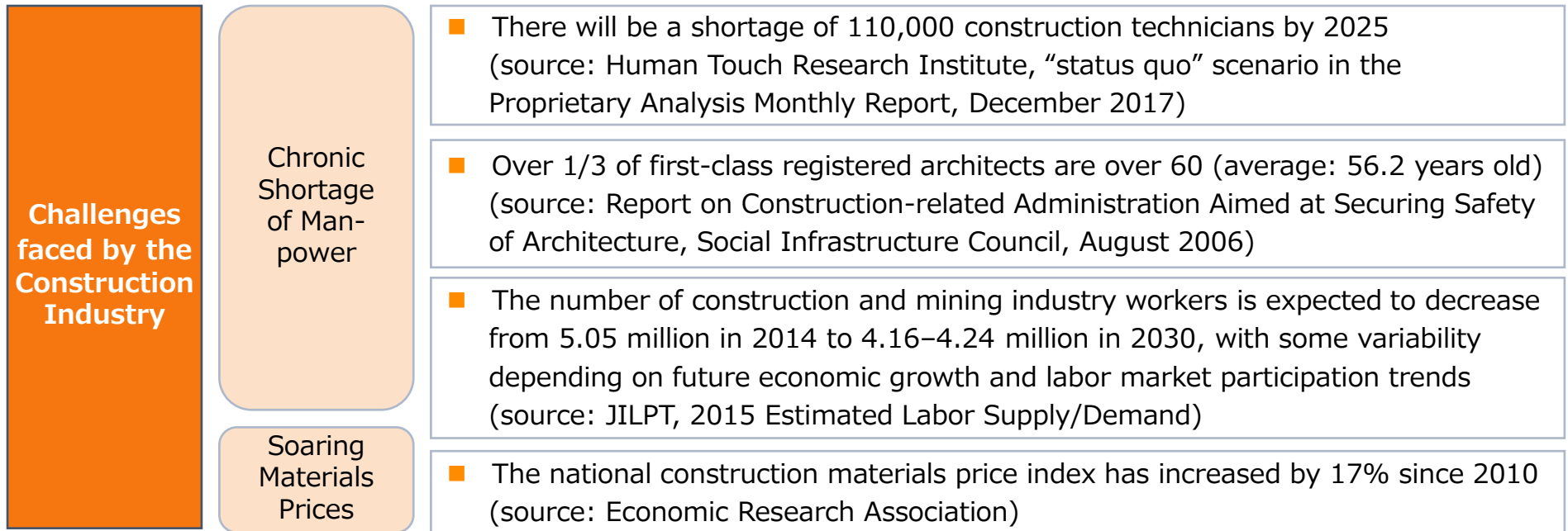
Provide comprehensive AI services with massive servers

Achieve stable, sustained earnings and high switching costs

**Earning structure: initial setup fee and ongoing fees**

# Potential demand for AI in the construction domain (one of our focus areas)

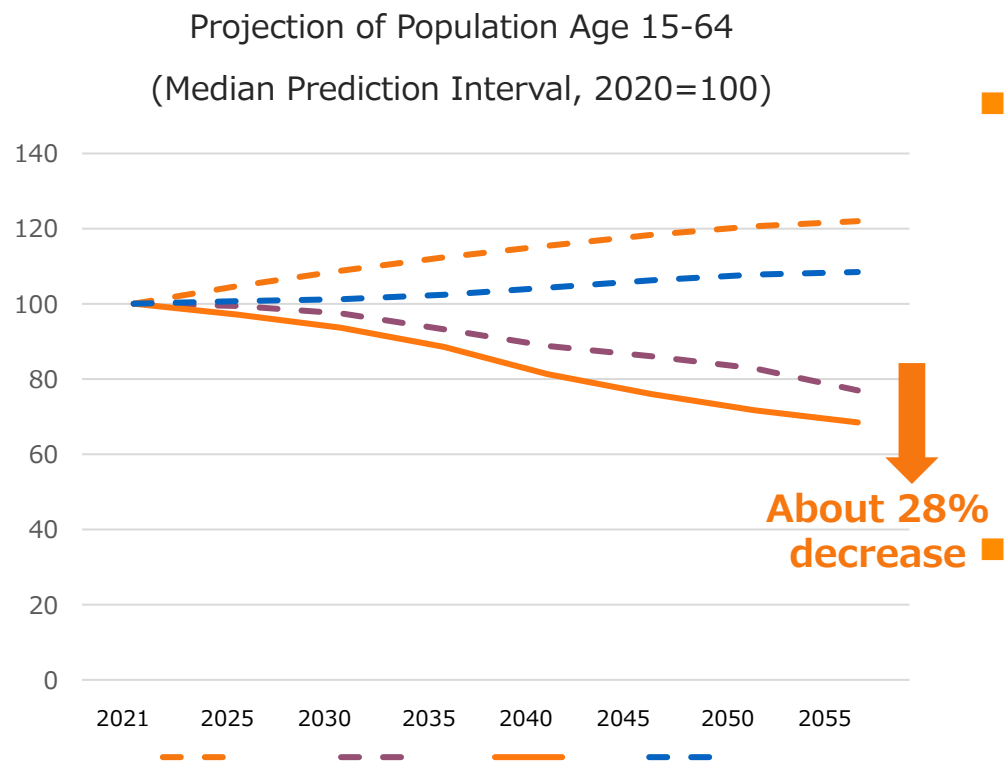
- We believe there is also significant potential demand for enhancing operational efficiency through AI in the construction industry, which is one of our areas of focus



- 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

# Japan: Potential AI Demand is Among the Largest Worldwide

- 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

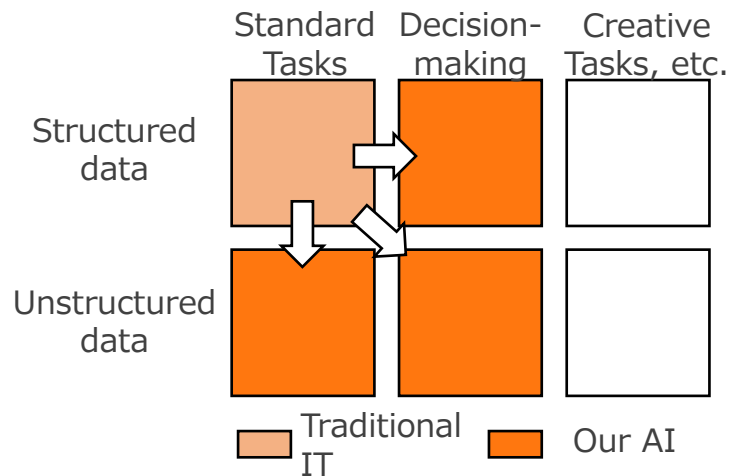
- Based on such forecasts, the Japanese working population will show the largest decrease among leading GDP nations

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



# Use of Our AI in DX

- 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

# Notes

- 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.