HEROZ

Presentation Material for FY04/2023 Full Year Financial Results

June 9,2023

HEROZ, Inc. │ 4382 │

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01

Financial Highlights

Financial Highlights

HEROZ

FY04/2023 Full Year Performance Summary

- Net sales were 2,980 million yen (+101%, YoY) due to organic growth and the consolidation of two companies, VarioSecure, Inc. and StrategIT, Inc. from third quarter of this fiscal year.
- EBITDA was 609 million yen (+222%, YoY), and Operating Profit was 257 million yen (+641%,YoY), resulting in a profitable landing.
- After agreement with our audit firm regarding the losses recorded by our consolidated subsidiary, VarioSecure, Inc. for the FY02/2023, we have decided to record an extraordinary loss as a provision for the designated purchase guarantee.

Forecast and Initiatives for FY04/2024

- Expecting organic growth in both AI/DX service and AI Security service, we forecast net sales of 4,800 million yen (+61% YoY), EBITDA of 800 million yen (+31% YoY), operating profit of 400 million yen (+55% YoY), and net income attributable to the parent company of 30 million yen.

- Established the LLM Group, a dedicated unit to handle Generative AI, including large-scale language models , and appointed a new full-time executive officer to promote AI Transformation (AIX).

Business alliance with WILLs, Inc. and introduction of shareholder special benefit plan

- We have resolved to form a business alliance with WILLs, Inc. and to introduce a shareholder special benefit plan.
- With the aim of "improving capital market efficiency through enhanced IR activities" and "maximizing the corporate value of listed companies," we have entered into a business alliance with WILLs, Inc. Both companies plan to develop AI-based businesses.
- Introduced a "HEROZ premium benefit club" offered by WILLs Inc. as a shareholder benefit.
- Shareholders holding 700 or more shares receive shareholder incentive points.

02

FY04/2023 Full Year Performance (Consolidated)

Our Key Performance Indicator

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（2,180 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
(FY04/2023)

Net Sales	EBITDA	Operating Profit
2,980mil yen	**609**mil yen	**257**mil yen
YoY ＋101.0%	YoY ＋222.8%	YoY ＋641.4%

AI SaaS KPI

ARR	Recurring Revenue Ratio	AI Security Recurring churn rate
2,816mil yen	**58.0**%	**0.5**%
YoY ＋371.5%	YoY ＋19.1%pt	YoY -0.5%pt
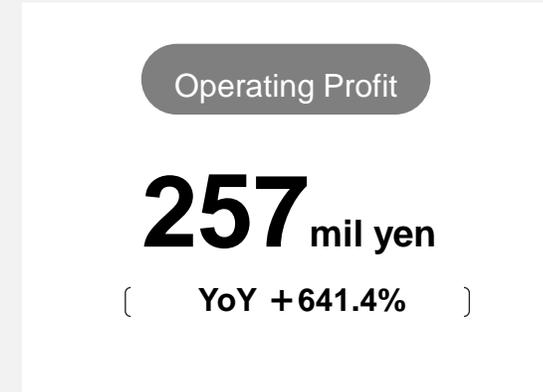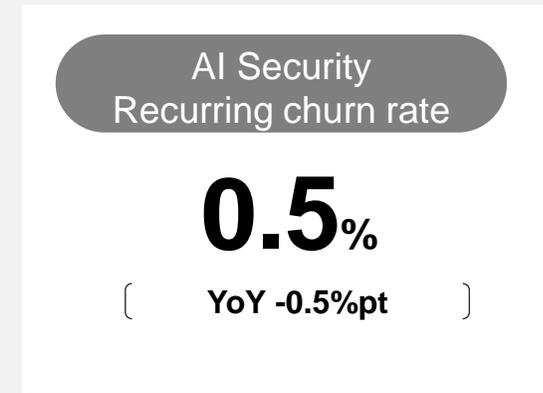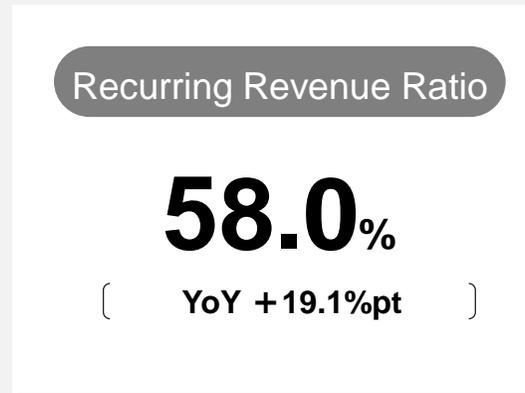
* Recurring Revenue is the sum of HEROZ's BtoB recurring sales and BtoC subscription sales, VarioSecure's managed security services sales, and StrategIT's subscription sales and maintenance sales.

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

Performance Overview (FY04/2023 Full Year)

- Net sales totaled 2,980 million yen, growing.(+101.0%, YoY).
- EBITDA grew sharply to 609 million yen, (+222.8%,YoY) due to improved profitability of existing businesses and the effects of M&A.

(Units: JPY millions)	FY04/2022 Results (Non-Consolidated)	FY04/2023 Actual (Consolidated)	YoY	Earnings Forecast (Announced on December 9, 2022)	Actual to Forecast
Net sales	1,482	**2,980**	+101.0%	2,900	+2.8%
EBITDA	188	**609**	+222.8%	550	+10.9%
Operating Profit	34	**257**	+641.4%	250	+3.2%
Ordinary Profit	87	**216**	+146.3%	200	+8.1%
Net Income (loss) attributable to owners of the parent	49	**-574**	-	-590	-

Key Performance KPIs (by Quarter)

Net Sales

(Units: JPY millions)

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Value	367	386	374	429	354	374	371	381	375	389	1,114	1,100
		FY04/2021				FY04/2022				FY04/2023		

EBITDA

(Units: JPY millions)

|	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Value	83	95	79	108	47	22	40	78	41	53	258	256
		FY04/2021				FY04/2022				FY04/2023		
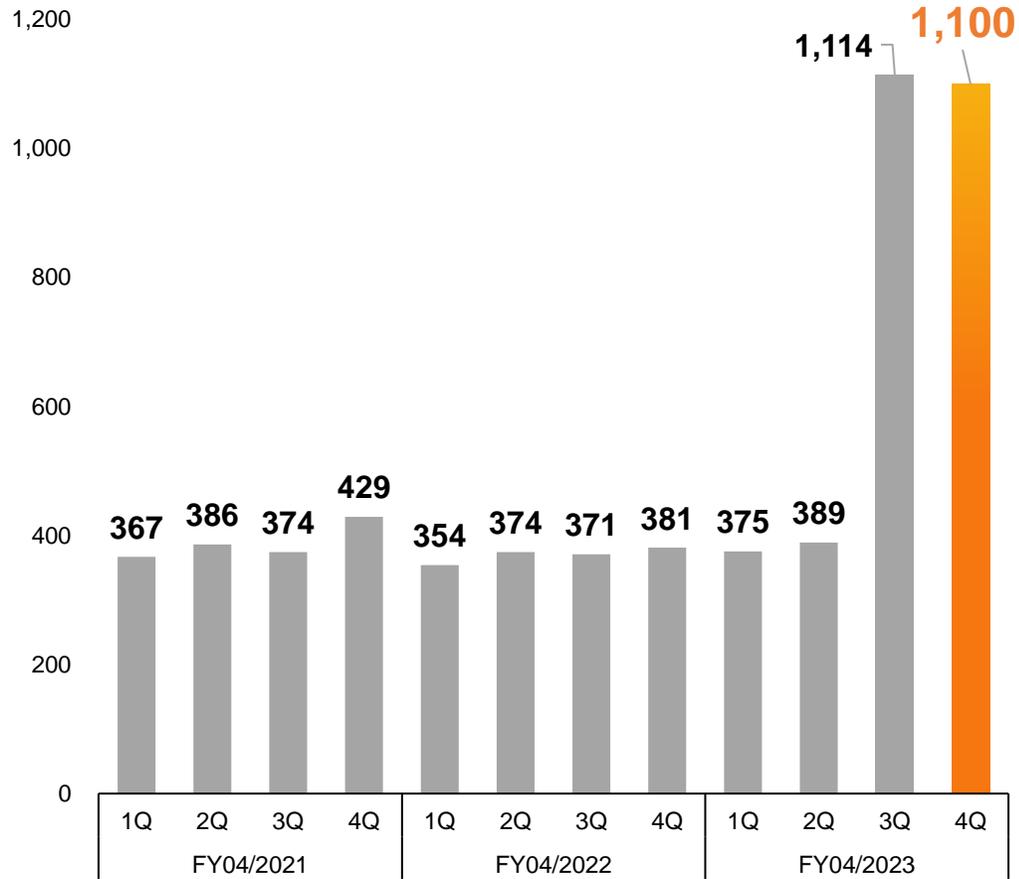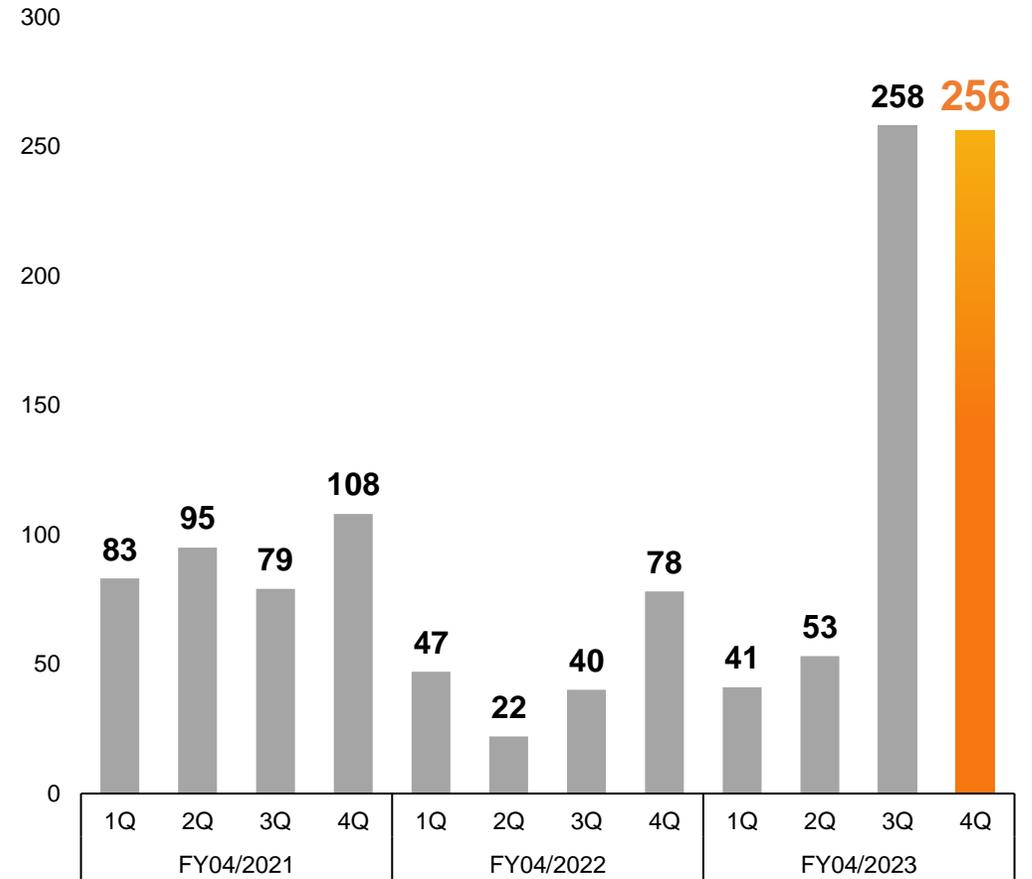
In the fourth quarter of the fiscal year ended April 30, 2023, due to a change in the accounting period of StrategIT Inc. , only two months' worth of sales were recorded for the company, resulting in a decrease from the third quarter; however, if three months' worth of sales were recorded, the increase would be greater than in the third quarter.

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 64.5% this quarter following the consolidation of VarioSecure and StrategIT as group companies.

(Units: JPY millions)

Net Sales | Recurring revenue | Raito of Recurring revenue

FY04/2022: 1Q 37.5%, 2Q 38.5%, 3Q 40.1%, 4Q 39.3%
FY04/2023: 1Q 40.4%, 2Q 39.3%, 3Q 63.9%, 4Q 64.5%

Net Sales — FY04/2022: 1Q 354, 2Q 374, 3Q 371, 4Q 381; FY04/2023: 1Q 375, 2Q 389, 3Q 1,114, 4Q 1,100

Recurring revenue — FY04/2022: 1Q 133, 2Q 144, 3Q 149, 4Q 150; FY04/2023: 1Q 151, 2Q 153, 3Q 712, 4Q 710
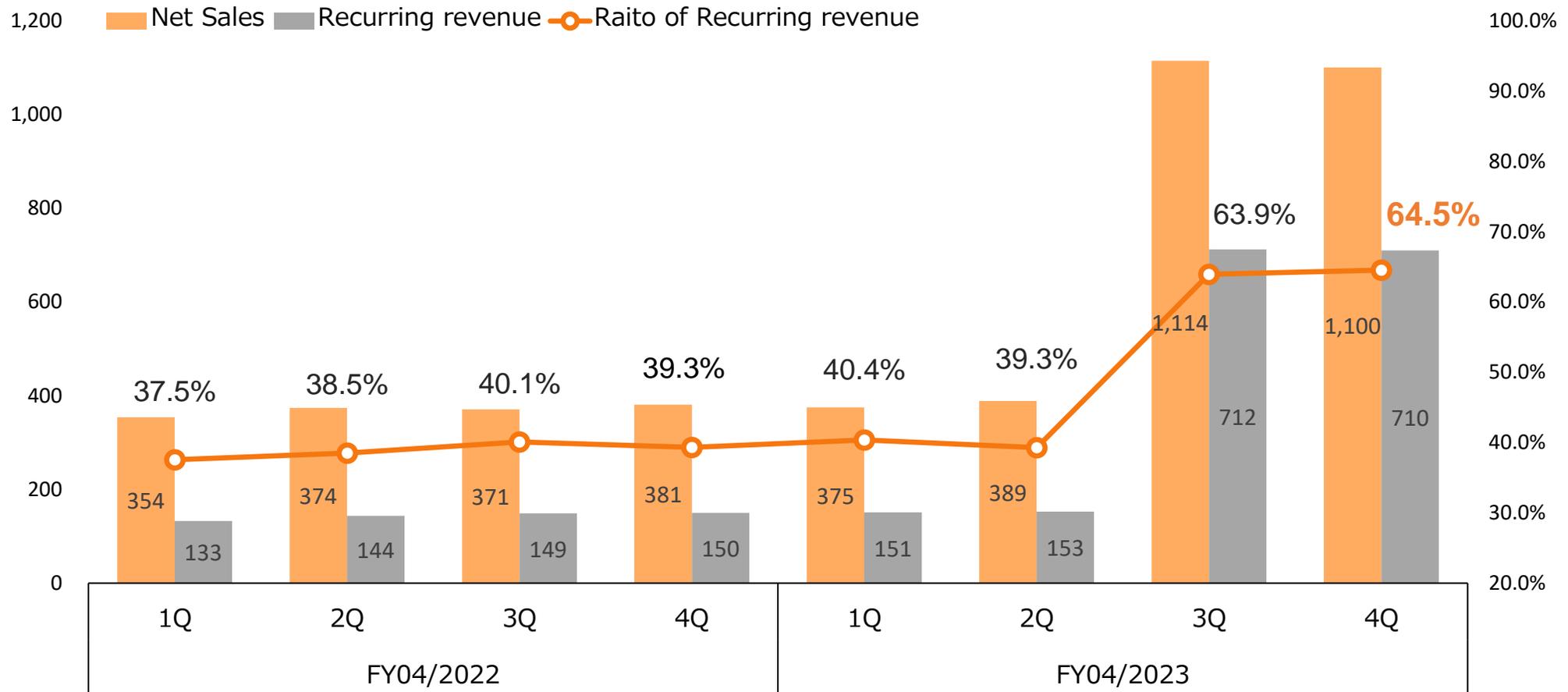
ARR also increased significantly to 2.8 billion yen

(Units: JPY millions)

ARR

Period	Value
1Q FY04/2022	543
2Q FY04/2022	600
3Q FY04/2022	600
4Q FY04/2022	597
1Q FY04/2023	610
2Q FY04/2023	612
3Q FY04/2023	2,862
4Q FY04/2023	2,816
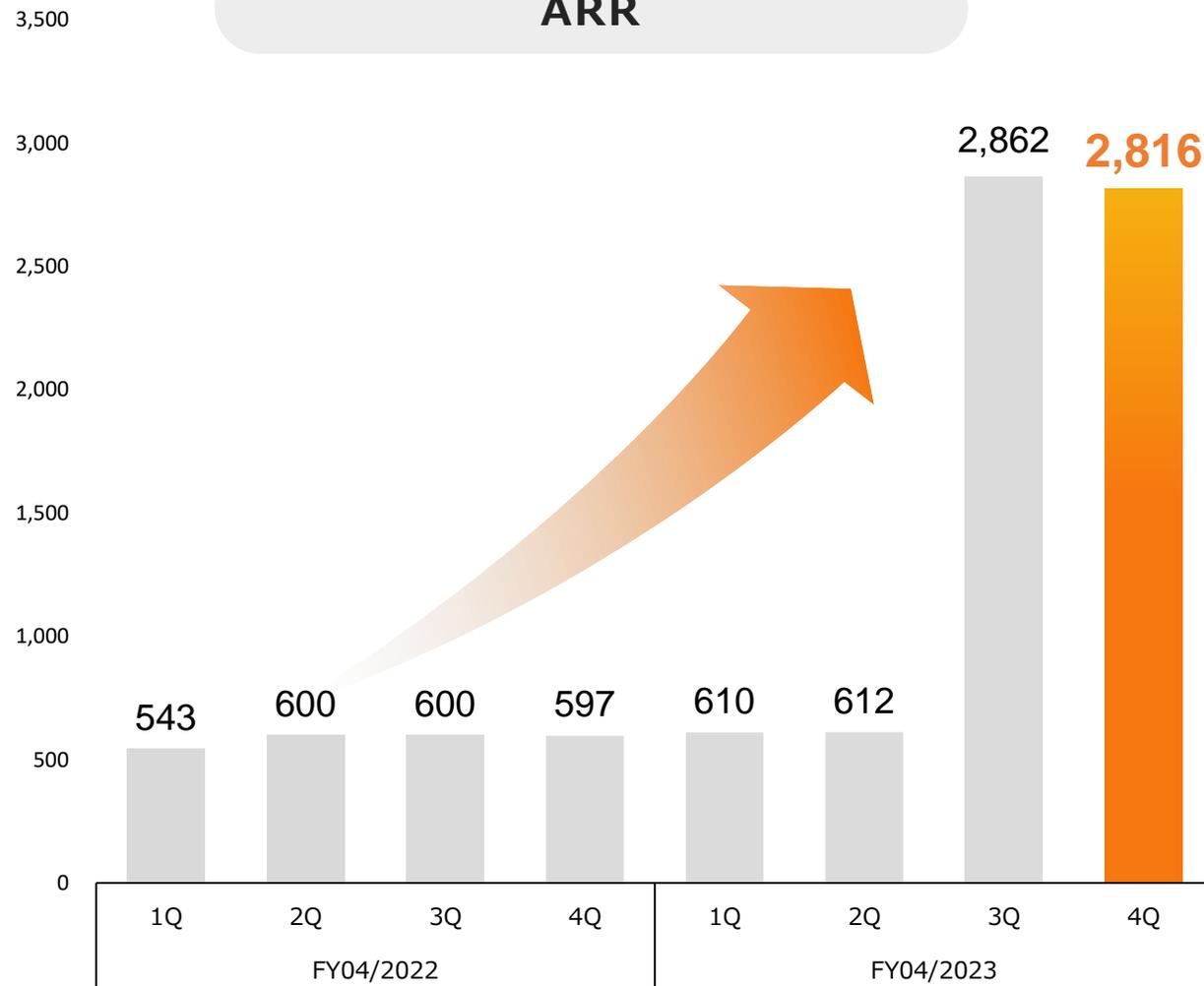
ARR grows significantly

YoY growth +371.5%

YoY growth 2,816 mil 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 and Churn Rate

Breakdown of Recurring Revenue for this Quarter

(Units: JPY millions)

BtoB Recurring Contracts /Subscriptions

Operate a lot of long-term projects lasting more than one year

Shogi Wars Subscription (Reference Values)

Membership grew steadily, up 8.0% YoY

AI Security Managed Security Services

Churn rate remains low at less than 1%.

Bar values: 49, 98, 562
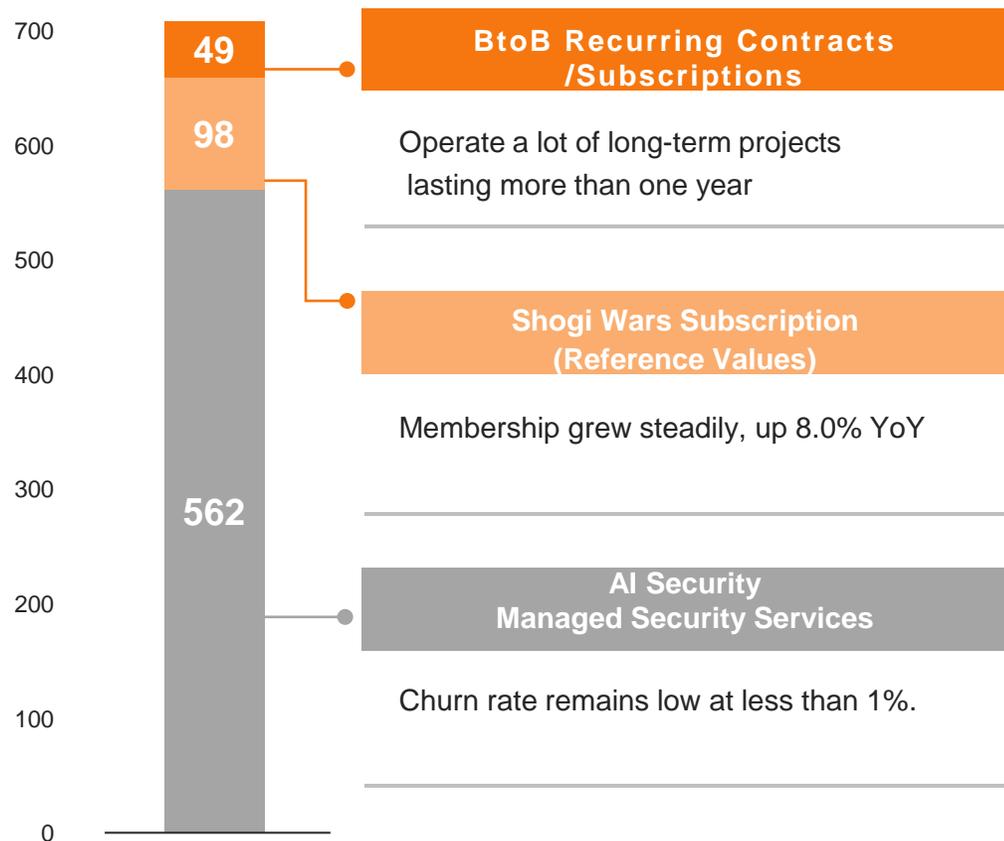
AI Security : Churn Rate Trends for Managed Security Services

Data points: 1.4%, 0.9%, 0.7%, 1.2%, 1.1%, 0.9%, 1.0%, 0.8%, 0.8%, 0.8%, 0.7%, 0.9%, 0.8%, 0.9%, 0.8%, 0.8%, 0.8%, 0.9%, 0.8%, 0.8%, 0.6%, 0.5%

X-axis: 1Q 2Q 3Q 4Q FY02/2018 | 1Q 2Q 3Q 4Q FY02/2019 | 1Q 2Q 3Q 4Q FY02/2020 | 1Q 2Q 3Q 4Q FY02/2021 | 1Q 2Q 3Q 4Q FT02/2022 | 1Q 2Q 3Q 4Q FY02/2023
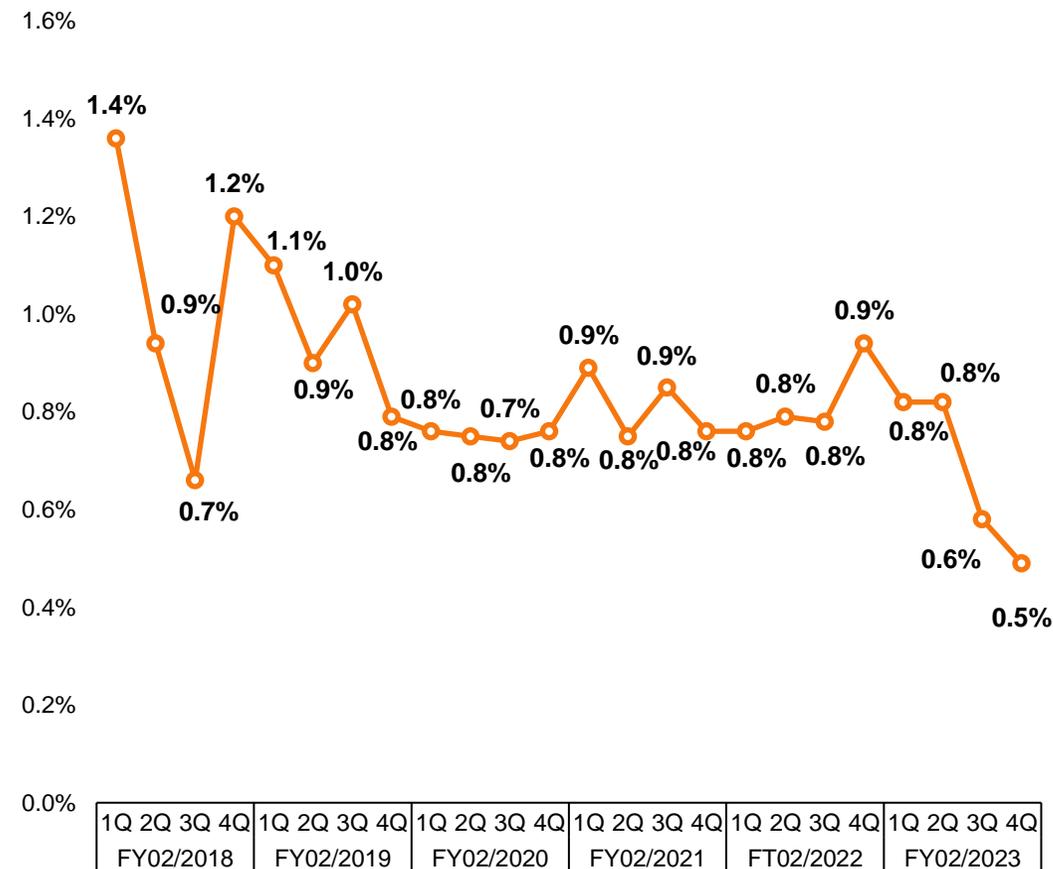
※ The above graphs are based on VarioSecure's discloser materials.

Performance by Segments (FY04/2023 Full Year)

- AI/DX services continue to grows over 10% YoY ,also, EBITDA margin at 39.0%, high profitability
- AI Security service is deployed by VarioSecure and maintains high profitability with an EBITDA margin of 44.0%.

(Units: JPY millions)		FY04/2022 Results (Non-Consolidated)	FY04/2023 Actual （Consolidated）	YoY （Consolidated)	YoY （Excluding M&A impact)
AI/DX service	Net Sales	1,482	1,683	+13.6%	+6.0%
	Segment Profit	34	494	-	-
	EBITDA	188	655	-	-
	EBITDA Margin	12.7%	39.0%	-	-
AI Security service	Net Sales		1,297		
	Segment Profit		380		
	EBITDA		571		
	EBITDA Margin		44.0%		
Segment Profit adjustment	Segment Profit		-617		

※ The Company has changed its business segments from the third quarter of the current fiscal year. The segment income adjustment of -617 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.

AI/DX Services Segment

- 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.

（Units: JPY millions）

	FY04/2023 Actual	
Net Sales	**1,683**	Recurring Revenue Ratio **36.0**%
Operating Profit	**494**	Operating Margin **29.4**%
EBITDA	**655**	EBITDA Margin **39.0**%

High profitability with EBITDA margin of 39.0%

- 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.

AI Security service

- 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 Actual	
Net Sales	**1,297**	Recurring Revenue Ratio **86.4**%
Operating Profit	**380**	Operating Margin **29.3**%
EBITDA	**571**	EBITDA Margin **44.0**%

Recurring sales ratio is high at 86.4%.

- 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.

- Around September 2023, we plan to start streamlining operations using our AI in Security Operations Center (SOC).

Balance Sheet (as of April 30, 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 4/30/2023 (Consolidated) (B)	Increase and decrease (B-A)
Current Assets	3,959	4,963	1,004
Cash and deposits	3,660	3,798	138
Fixed Assets	2,675	3,709	1,033
Property, plant and equipment	260	273	-22
Intangible assets	25	2,640	2,615
Investments and other assets	2,390	831	-1,559
Total Assets	6,635	8,673	2,037
Current Liabilities	194	994	799
Fixed Liabilities	–	1,598	1,598
Net Assets	6,440	6,080	-360

03

FY04/2024 Forecast

FY04/2024 Financial Forecast

■ For FY04/2024, we expect net sales to increase 61.0% YoY and EBITDA to increase 31.2% YoY,
 due to 10% organic growth and the full-year contribution of two group companies in the consolidated accounts.

（Units: JPY millions）	FY04/2023 Actual	FY04/2024 Forecast	YoY
Net sales	2,980	4,800	+61.0%
EBITDA	609	800	+31.2%
Operating Profit	257	400	+55.1%
Ordinary Profit	216	385	+78.1%
Net Income (loss) attributable to owners of the parent	-574	30	―

04

Introduction of Shareholder Special Benefit Plan

Business Alliance with WILLs Inc.

- We entered into a business alliance with WILLs Inc. for the purpose of "improving the efficiency of capital markets through enhanced IR activities" and "maximizing the corporate value of listed companies".
- Our two companies plan to develop AI-based businesses.

WILLs Inc.

◆https://www.WILLs-net.co.jp/

◆Tokyo Stock Exchange　Securities code：4482

◆Businesses
Comprehensive consulting company for IR and SR activities.
Offering services such as "Premium Benefits Club," which combines a shareholder benefits program with DX for shareholder management, "IR-navi," a marketing tool for institutional investors, and the "ESG Solution Business," which provides planning, production, and consulting services for integrated reports.

Business Alliance Details
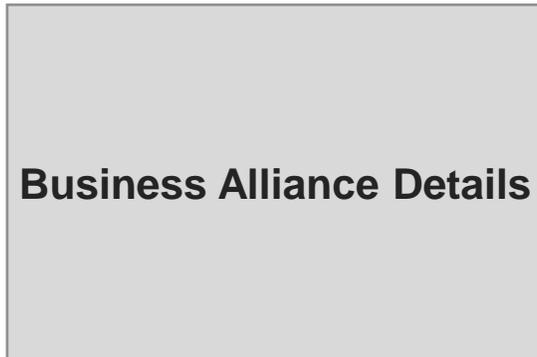
・"IR-navi" provided by WILLs, Inc. is equipped with "Corporate Management Diagnosis AI (tentative name)" developed by HEROZ and provided to listed companies.

・Development of AI tools related to "Premium Benefits Club" by HEROZ

・Mutual introduction of potential customers by sharing the customer networks of both companies

・ Planning and development of new services

Outline of Shareholder Benefit Plan

■ Launched "HEROZ Premium Benefit Club" to further increase the attractiveness of investment in our shares
and to increase the number of shareholders who will hold our shares over the medium to long term,
taking advantage of the business alliance with WILLs Inc.

◆ Eligible Shareholders
・Started for shareholders holding over 700 shares as recorded in the shareholders' register as of the end of
   October, 2023.
・Thereafter, shareholders who hold 700 or more shares and are recorded in the Company's shareholder registry as
   of the end of April or October of each year are eligible.

◆Outline of Shareholder Benefit Plan
・ Points are awarded to eligible shareholders based on the Shareholder Benefit Points Chart.
   Points can be exchanged for more than 5,000 different products, including food and electrical appliances, on
   the "HEROZ Premium Benefits Club," a website exclusively for shareholders, depending on the number of points
   earned.
・Shareholder benefit points can be exchanged for "WILLs Coin" and combined with shareholder benefit
   points from companies that have introduced a premium benefit club.
・**It is also possible to exchange the right to use the Shogi AI "Kishin" in Shogi Wars.**

About Shareholder Benefit Points

- Points awarded based on the number of shares held
- Assumed annual rate of return are set at a maximum level of around 2%.

Number of shares held	Shareholder Benefit Points to be granted	
	End of April	End of October
700～799	3,500	3,500
800～899	4,000	4,000
900～999	5,000	5,000
1,000～1,499	7,500	7,500
1,500～1,999	15,000	15,000
Over 2,000	25,000	25,000

*Annual rate of return is calculated with the number of shareholder incentive points in the numerator and the minimum number of shares for which such points are granted x the share price in the denominator.
The share price is calculated based on the two-month average share price of 1,272 yen from April 1, 2023 to May 31, 2023.

05

Initiatives in each business segment

Group Business Structure

Segment	AI/DX Service			AI Security Service
	BtoC	BtoB		

	BtoC	BtoB		AI Security Service
Business Contents	**将棋ウォーズ**	**HEROZ**	**StrategIT**	**Vario Secure**
	Shogi SaaS business for individuals, including "Shogi Wars," utilizing AI and other technological capabilities that won the World Computer Shogi Championship.	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.	Support for SaaS implementation and development of systems that integrate APIs between SaaS. Selling API applications on the app market.	Managed security and integration services for secure Internet use, primarily for small and medium-sized businesses.
Main KPI	**Recurring Revenue** ● MAU※1 ● Billing rate ● MPU※2 ● ARPPU※3	**Recurring Revenue and Solution revenue** ● Recurring Revenue Ratio ● number of customers ● number of employees ● utilization rate/unit cost ● revenue per employee	**Recurring Revenue and Solution revenue** ● number of customers ● number of employees ● utilization rate/unit cost ● revenue per employee ● number of apps acquired/churned ● ARPPU※3	**Recurring Revenue** ● number of customers ● churned ● revenue per customer

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

Initiatives in AI/DX Services

Initiatives implemented in the FY04/2023

- The total number of games played in "Shogi Wars" exceeded 800 million.
  With the release of "Kishin - Analytics", an analysis tool for professionals,
  we continues our efforts to maximize the number of Shogi players.

- In the BtoB solutions business, the number of new customer projects increased with the launch of the sales organization. Inquiries related to Generative AI are also increasing, and we will continue to actively cultivate new clients in the current fiscal year.

- Accelerate the expansion of the Group's AI SaaS business by establishing a cooperative framework that anticipates synergies in our group. SaaS collaboration system and our AI solution technology.

Initiatives for FY04/2024

- **Formed a dedicated LLM unit to promote AI Transformation**
  Launched a SaaS-type product "HEROZ Knowledge System built with ChatGPT" offering Customized ChatGPT, which can be utilized in a form suitable for actual business operations of a company.

- **Establishment of Shogi Wars economic zone**
  In addition to the stable growth of "Shogi Wars", we plan to release "Kishin Learning" this fiscal year, aiming to establish a Shogi Wars economic zone by providing a Shogi platform through learning, playing games and analysis game data.

- **Release of platform service "JOINT"**
  StrategIT (Our group company) released a platform service "JOINT" that provide support as a business partner to SaaS sellers on May 18. 2023, to accelerate the expansion of the SaaS market.

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).

AI Transformation

Can be directed and interacted with in natural language, eliminating the need for an asymptotic process for digitization.
Realizing of LEAP FROG

- ✓ Automation of cross-organizational/whole business and manufacturing processes achieved with fewer resources
- ✓ Reform business model for "superior customer-driven value creation

Possible with more generic AI.

Digital Transformation

- ✓ Digitalization of business processes across the organization
- ✓ Changing business model for customer-driven value creation

Continuous process is inevitable

Digitalization

- ✓ Digitization of individual business and manufacturing processes

Specialized AI is assumed.

Digitalization

- ✓ Digitization of analog and physical data

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

Launch of an organization dedicated to the application of Generative AI

- We have established a professional organization (LLM Group) dedicated to the application of Generative AI.
  We position ChatGPT and various other Generative AI technologies as the core of our AI SaaS strategy to accelerate the AI Transformation of society.

- LLM Group is an organization that embodies HEROZ's engineer-first attitude and high AI implementation capabilities, led by the development members of "dlshogi with HEROZ".
  Leveraging HEROZ's strength in AI business applications and StrategIT's implementation know-how in the iPaaS domain, we will lead the application of LLM both internally and externally.

| Social Implementation of AI	Deep Learning Applications	API Linkage
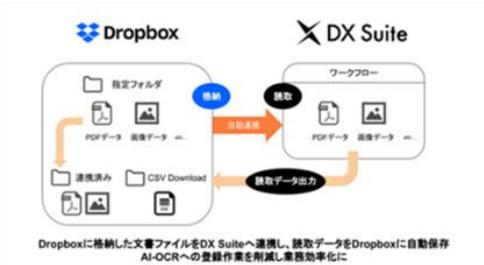
- LLM Group" will focus on pursuing Generative AI technology using its advanced technical capabilities in AI implementation and implementation know-how in the iPaaS domain.

- We will work to realize interactive services using various APIs provided by OpenAI and AzureOpenAI services.
  In the future, we plan to further expand HEROZ's AI SaaS services with an eye toward the application of image generation AI and multimodal Generative AI.

Start providing "HEROZ Knowledge System built with ChatGPT"

- We Started providing a SaaS-type product, "HEROZ Knowledge System built with ChatGPT " Customized ChatGPT, which enables each company to utilize OpenAI, L.L.C.'s ChatGPT in a way that is suitable for their actual business operations, from April 2023.

- By loading specific internal standards, know-how, etc., ChatGPT can be made more useful in actual business operations, taking into account the specific circumstances of the client companies.
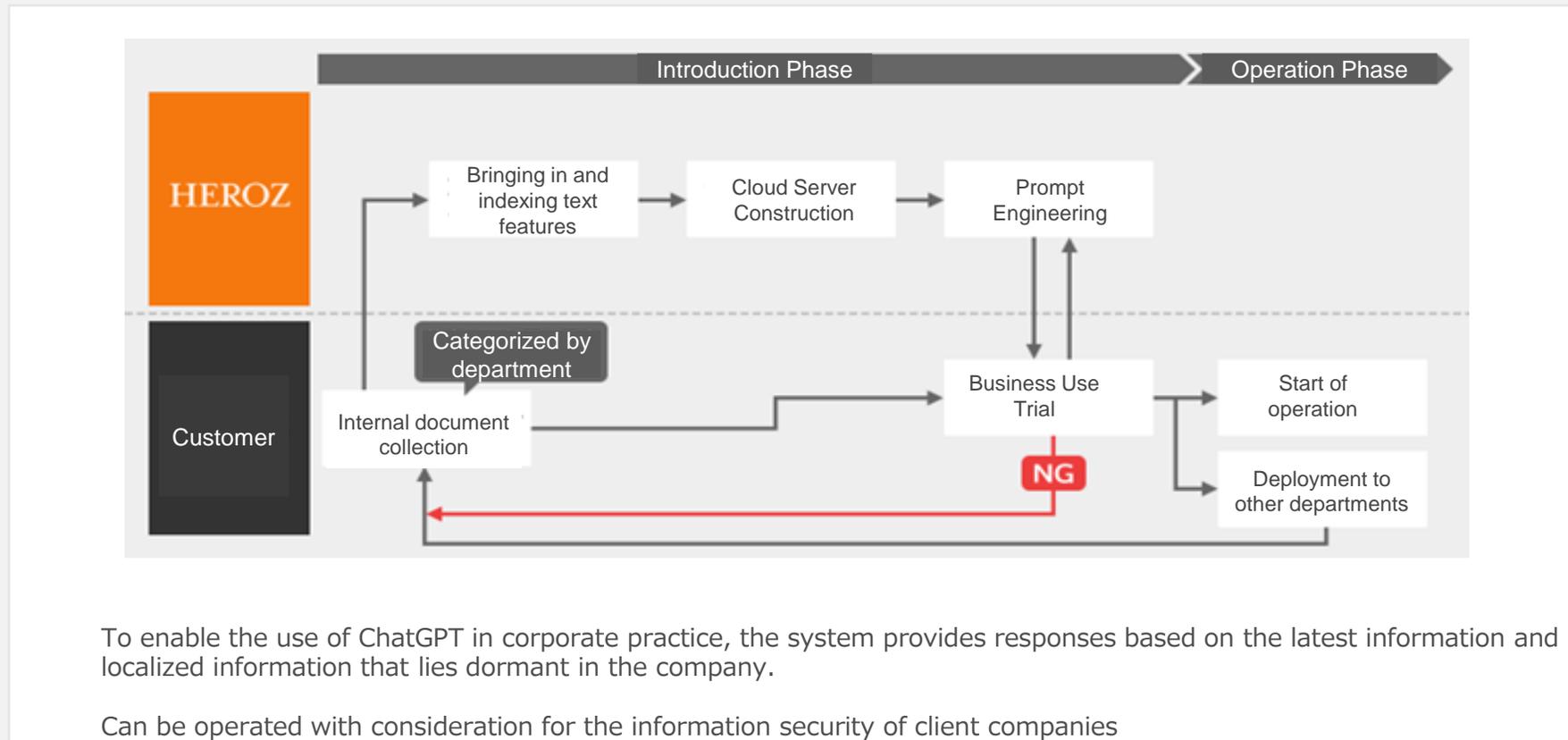
To enable the use of ChatGPT in corporate practice, the system provides responses based on the latest information and localized information that lies dormant in the company.

Can be operated with consideration for the information security of client companies

Started offering ChatGPT implementation with AI SaaS-type Solution

■ Support for basic functions to introduce LLM and implementation support all in one place,

■ HEROZ adds Generative AI to the Roots of its AI SaaS Strategy.
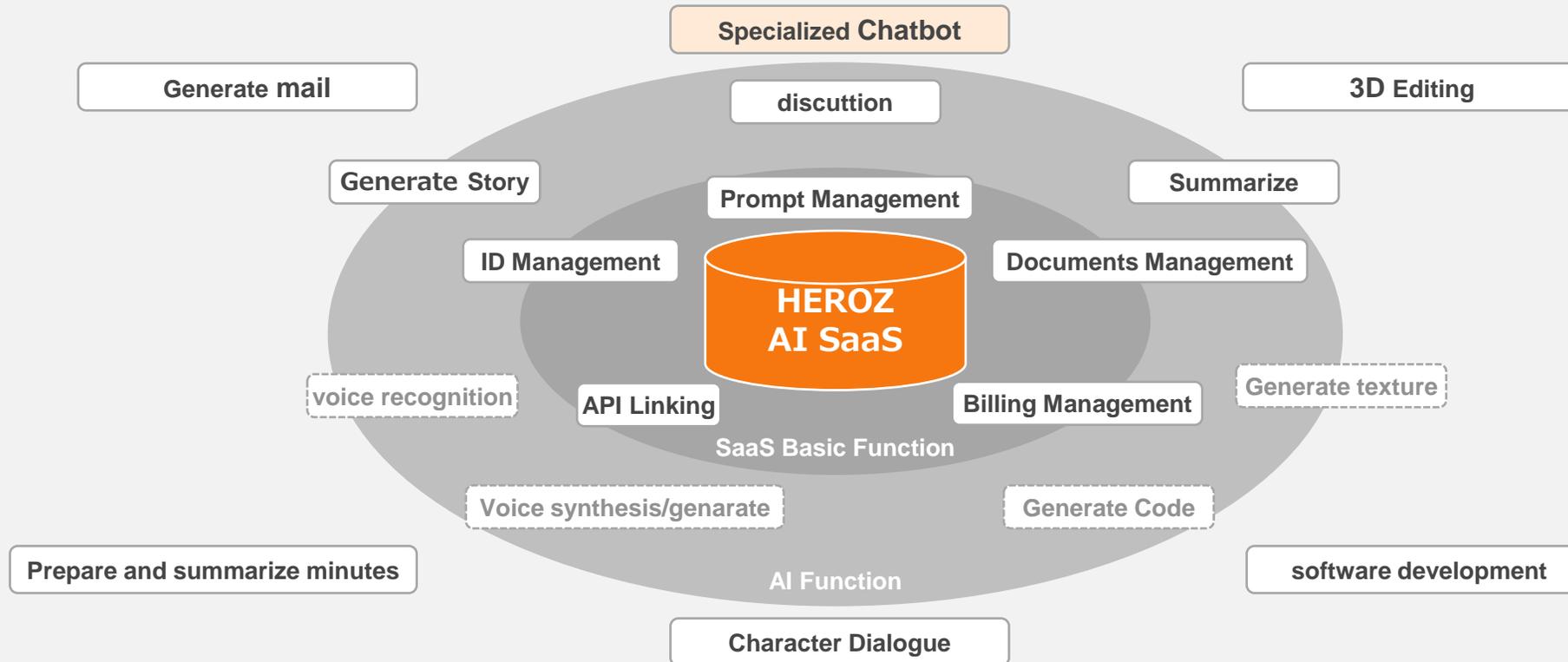

Our Direction	✓ Can be used immediately without the need for configuration, as long as each company has its own internal rules and documents. ✓ SaaS-lization enables external linkage of functions necessary for Chatbot coordination and user-side coordination. ✓ In the future, we plan to bundle more Generative AI Solutions such as voice and image generation as SaaS as needed.

With NTT Marketing Act Pro CX and USEN-NEXT HOLDINGS, we are launching a "next-generation contact center" project that integrates human and Generative AI using ChatGPT.

HEROZ

- We have launched a project with NTT Marketing ACT Pro CX Corporation and USEN-NEXT HOLDINGS Corporation to improve business efficiency and sophistication by utilizing ChatGPT in contact centers.

- Leveraging the respective strengths of each company to not only improve contact center productivity, but also to further seamlessly enhance the employee and customer experience.

- At the launch of this project, we have received an endorsement by Microsoft Japan to promote Digital Transformation through the use of next-generation AI, and we plan to jointly promote this project.
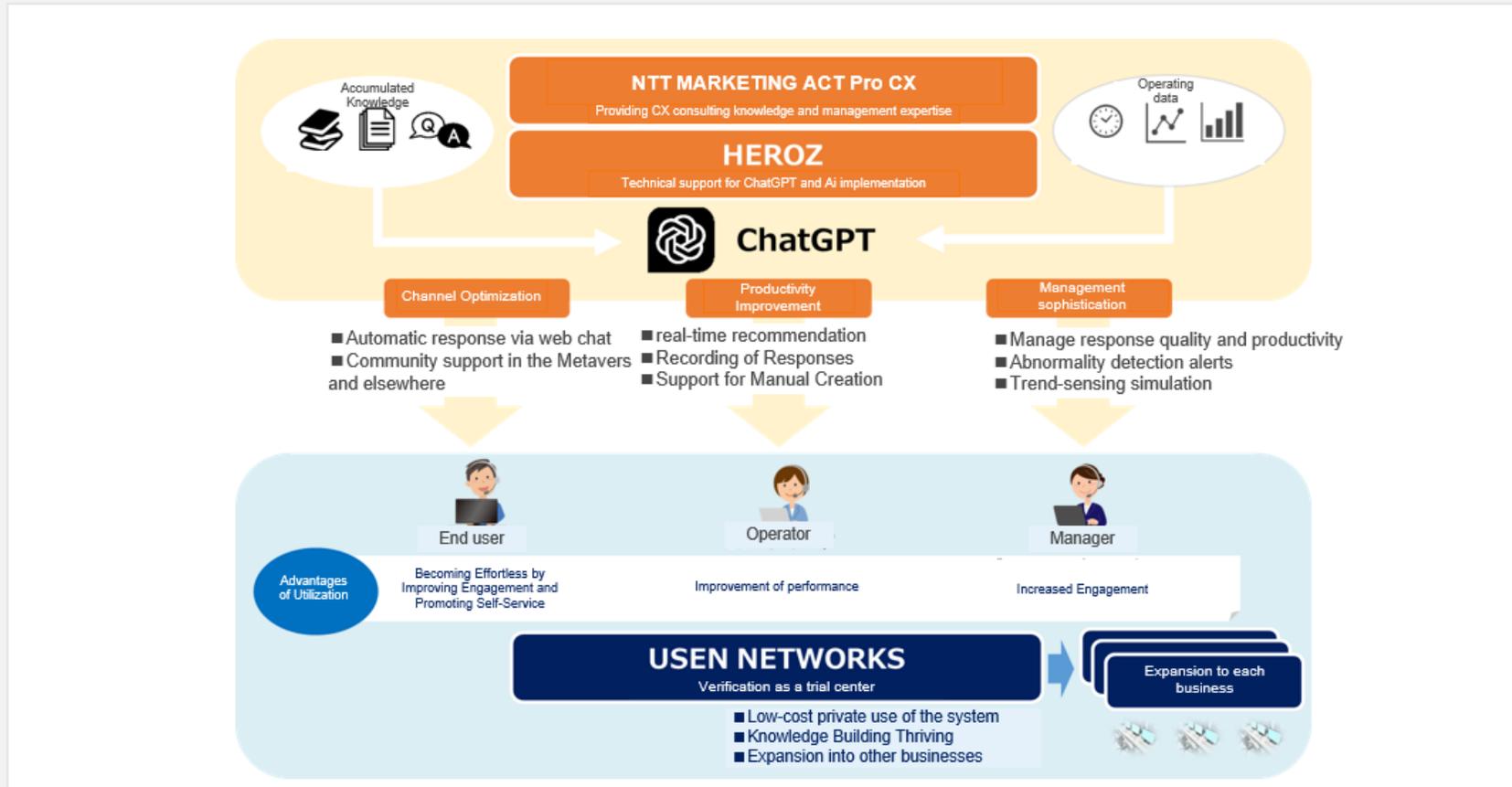
- "dlshogi with HEROZ", a team composed of our AI engineers, won the 33rd World Computer Shogi Championship held from May 3 to 5 , 2023, winning the championship for the second consecutive year.

- Our Shogi analysis service "Kishin Analytics" will also reflect this winning version. Provided mainly for professional shogi players to support the evolution of the shogi world.

◆The World Computer Shogi Championship is an annual shogi championship held by the Computer Shogi Association to improve the skills of shogi (Japanese chess) software.

◆ Team members of "dlshogi with HEROZ"
HEROZ AI Engineer Kaoru Kawashima
HEROZ AI Engineer Kunihiko Kano
HEROZ AI Engineer Yuhei Omori

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Released "JOINT", a platform for planning/building/operating SaaS

- Platform "JOINT" to be released at StrategIT (consolidated subsidiary) as of May 18, 2023.

- JOINT is a platform that provides the following three types of support necessary for each growth phase of a company as a business partner of a SaaS provider to accelerate the expansion of the SaaS market.

1. Products：Commercialization of non-core parts required for SaaS planning, construction, and operation

2. Consulting Services：Consulting services for SaaS planning, strategy formulation, API development, etc.

3. Professional Supports： Services such as maintenance, operation, and linked application construction services utilizing JOINT

JOINT

Everything here for the growing SaaS vendor

1/3
API integration

A highly versatile, integrated solution for complex workflows and on-premise systems can be built in low-code for many companies.

2/3
Design your appstore

Delivery format can be selected according to requirements. You can also integrate the app store into your company's website or products. You can also change the design of your own product-occupied app store.

3/3
Platform to build SaaS

Even if you are strengthening the integration with other companies' SaaS and cannot build an integrated application because your product or the SaaS you are integrating with does not have an API, you can build an API and standardize your product API with the introduction of Joint.

HEROZ

Initiatives implemented in the FY04/2023

- 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 part of the enhancement of the Managed Security Services service, the company is working with HEROZ to develop an AI-based processing function for SOC operations and management.

- Focus on customer development through aggressive approaches to specific industries (medical industry) to speed up VSR's expansion into adjacent areas for business expansion in adjacent areas

Initiatives for FY04/2024

- **Strengthen competitiveness of managed services**
  • In addition to gateway security, expand coverage from LAN to cloud computing and strengthen competitiveness by utilizing other companies' products
  • Building next-generation operational infrastructure through the use of AI

- **Entering the growing security market**
  Entering the zero-trust security domain by leveraging knowledge from existing services

- **Reinforcement of new sales structure**
  In addition to the existing stable sales structure centered on sales via distributors, build a strong direct sales structure by aggressively investing in online marketing and inside sales

- In addition to gateway security, expand coverage from LAN to cloud computing and strengthen competitiveness by utilizing other companies' products.

- Building a next-generation operational infrastructure using AI to enhance the efficient operation of managed services, a stable revenue base.

Expansion of Managed Services Supported Areas

Managed services for other companies' products

Managed Cloud Security

Managed LAN/Wi-Fi

Gateway Security

FY02/2023

FY02/2027
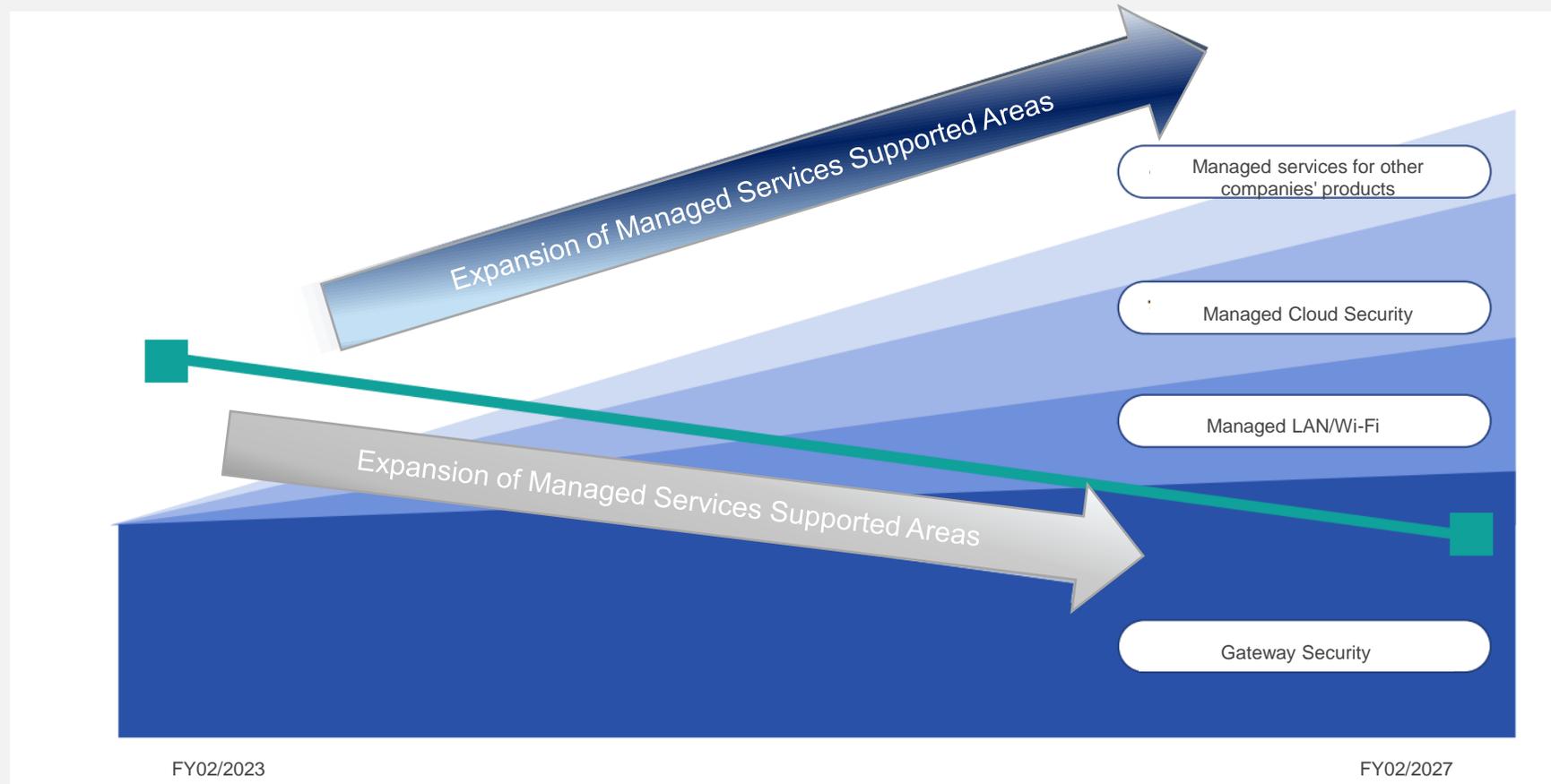
Direction② Entering the growing security market

- Entering the zero-trust security domain by leveraging knowledge from existing services.

FY02/2023

FY02/2027

Utilization Data. Authentication and Access Restrictions

EDR

Gateway Security

Expansion of supported areas will increase the amount of data that can be utilized.

Log Monitoring

Authentication Management

EDR

Gateway Security

Promote zero-trust security by linking data and operational infrastructure

Zero Trust Security

Operation Base

Operation Monitoring

Enhanced operational monitoring system through the use of AI and increased data

Next-generation operational monitoring using AI

Direction ③ Strengthen direct sales structure that differs from the existing sales network

■ Build a strong direct sales structure by aggressively investing in online marketing and inside sales, in addition to the existing stable sales structure centered on sales via distributors.
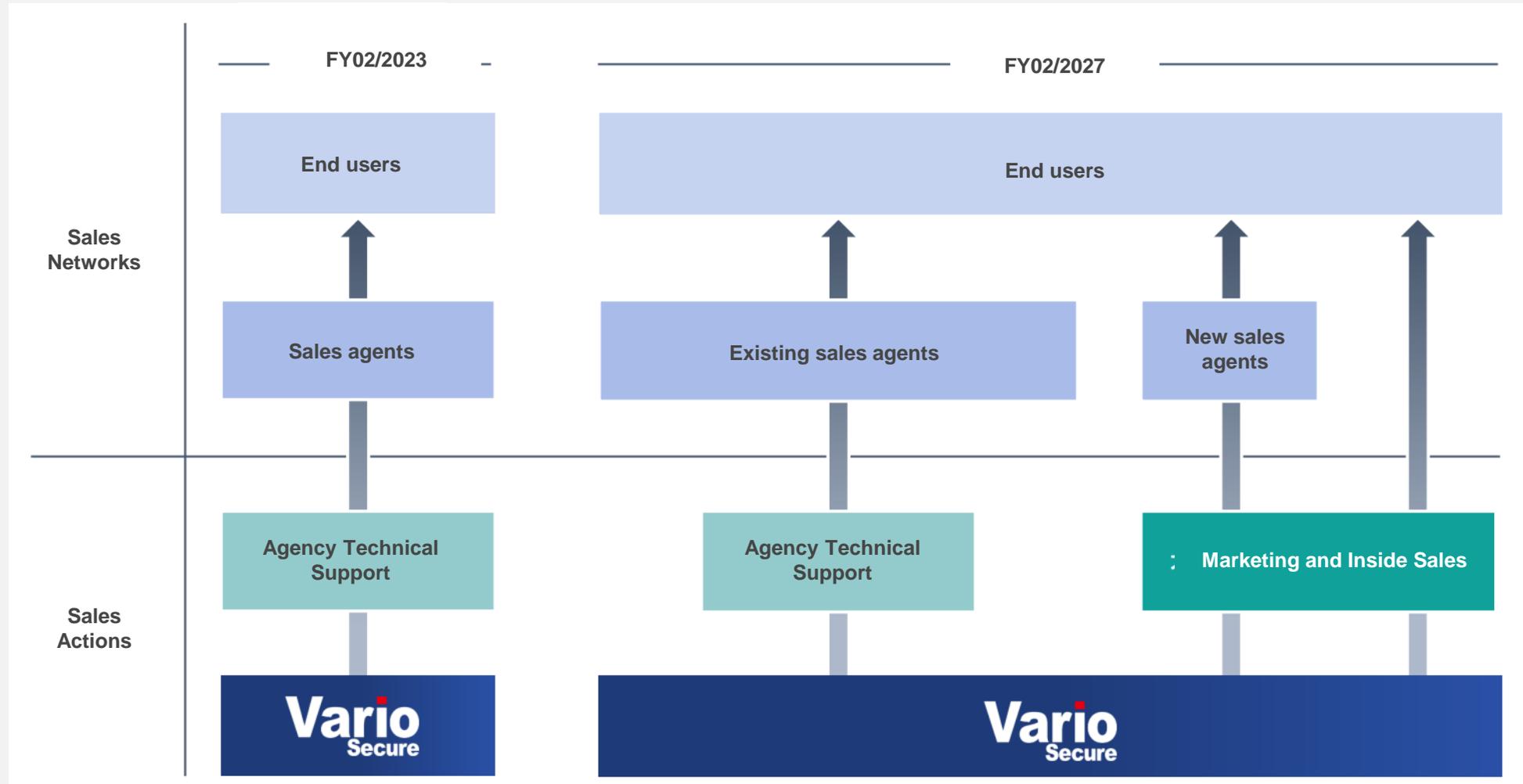
06

HEROZ Group Structure

Company Overview

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

- **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

HEROZ

Creating the future through artificial intelligence (AI) revolutions

The AI revolution we started in the chess world

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	The Age of Human with AI	Evolution of the Shogi world
Growing pessimism that shogi is over	**Human intelligence evolves with AI**	**A new era has arrived in which practicing with AI is the norm.**

In 2017, PONANZA won against then Meijin Amahiko Sato

Professionals are now studying Shogi through AI

(we also launched Kishin Analytics)

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.

A Revolution in Learning	A Revolution in sense of values	A Revolution in entertainment value
➢ Shogi is taught steadily by a limited number of masters ➢ Belonging to Encouragement association is authoritative.	➢ Shogi is warfare. Being strong in chess is a principle that runs through everything ➢ Technology is a competitor	➢ Only the core fans will enjoy watching it. ➢ Shogi is a game to be played and enjoyed by oneself.
⬇	⬇	⬇
➢ Using AI to measure the board and look back on moves is the norm. ➢ Dan acquisition is now possible through an app.	➢ Shogi is a game. The attractiveness of each chess player is important. ➢ Technology became a partner in co-creation.	➢ AI makes it clear at a glance which move changed the game ➢ Shogi is also enjoyable to watch
Non-professionals can achieve a professional look in less time.	**Not simply improving productivity, but fundamentally transforming the value we provide.**	**Gamification makes daily work more fun**

The direction we are heading

Group Structure

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

HEROZ

- Owns approximately 43% of the company
- Appoints majority of directors
- Dispatches 3 directors

- Owns approximately 89% of the company
- Dispatches 2 directors

Vario Secure

Listed on the TSE Standard Market　(4494)
Deemed acquisition date ： 2022/8/31

StrategIT

Venture company in its 5th year of operation
Deemed acquisition date ： 2022/9/30

07

Reference Materials

HEROZ

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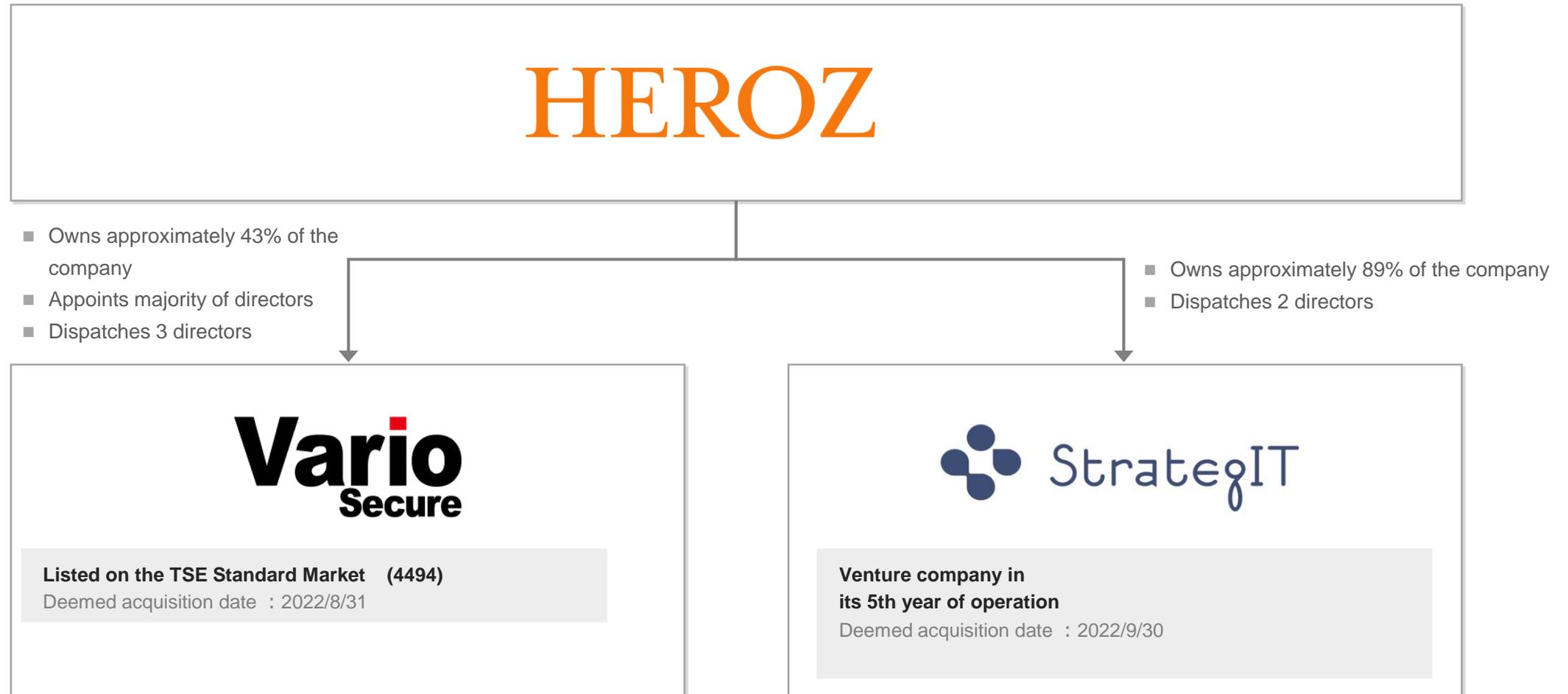
- Based on the knowledge gained from our experience in solving individual customer issues, we will aim for SaaS-type business management driven by intelligence such as our data utilization and AI in the future.（HEROZ 2.0)

HEROZ 1.0	HEROZ 2.0
Individual issue resolution	**More versatile issue resolution**
customer × data ▶ ●●prediction AI / HEROZ AI	HEROZ Group
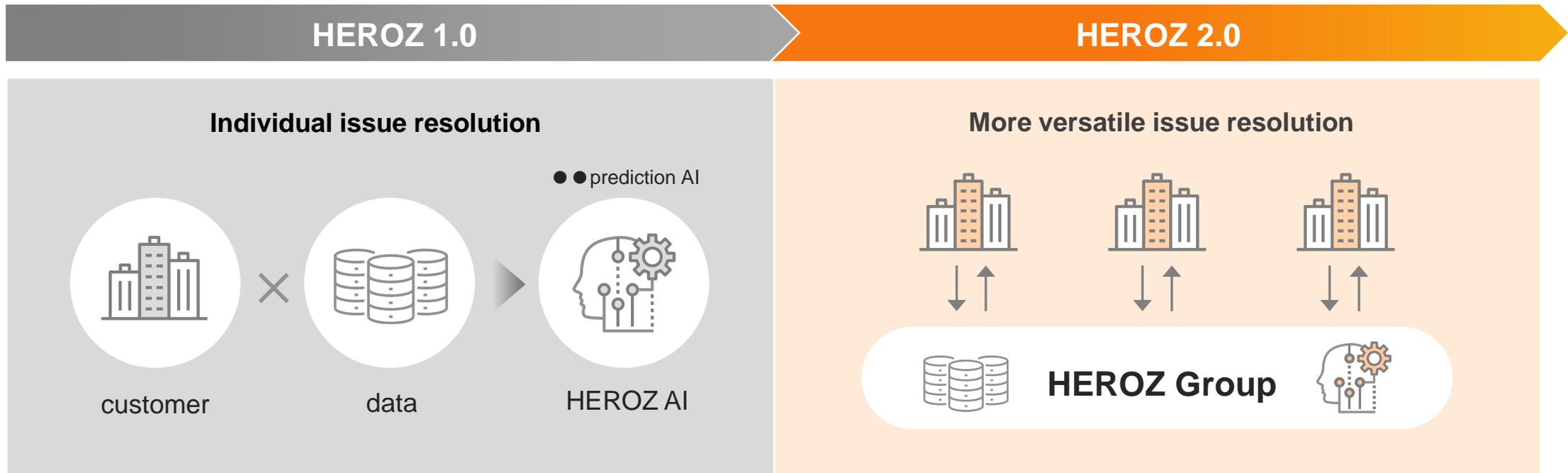
We will expand AI to a wider range of society by realizing intelligent SaaS,
utilizing the core technology of algorithm and AI development cultivated through Shogi AI, and the advanced know-how accumulated through solving individual problems.

■ 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.

Pillars of Business

AI SaaS Products

Customized AI

Mind Sports

VarioSecure Security Services

StrategIT iPaaS

data

| Advanced AI implementation know-how | Using Deep Learning **World's Strongest Shogi AI** |
| **Engineer**s committed to winning cultivated by Shogi AI. | **Data analysis technology** to apply customer Big Data |

HEROZ Group

Preparation for the implementation of vision

Embodying the vision throughout the 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 trillions yen potential market, it is necessary to grasp the trends in the Japanese SaaS market.

10 tn yen potential market

Enterprise Software Market in Japan （SI）

10.8 tn yen

SaaS Market in Japan (2026)
1.7 tn yen

SaaS Market in Japan (2022)
1.1 tn yen

CAGR 11%
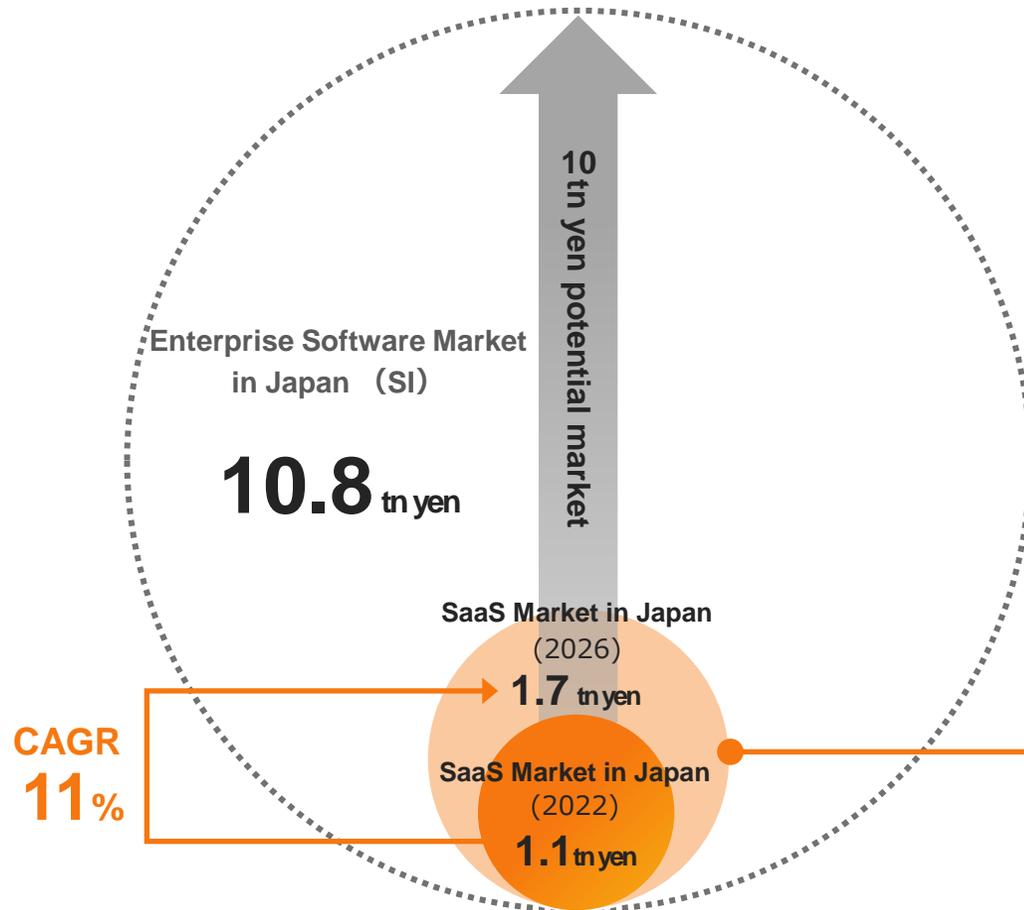
Our view of future trends in the SaaS market

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)

Our perception of the challenges of implementing SaaS

HEROZ

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.
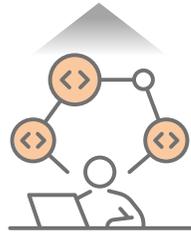
Integration with legacy systems

- 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.

Security

iPaaS

Advanced AI implementation know-how

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.

顧客

CRM

HR

mail

Chat

MA

✓ **Automated and optimized SaaS-to-SaaS collaboration**

✓ **Automated operations and maintenance**

✓ **Advanced Security**

HEROZ GROUP

SaaS Big Data
accumulated through business activities

Learning with AI

Global Leader in Mind Game AI

Chess AI

Deep Blue ('97) defeated a professional Chess player

Shogi AI

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

Go AI

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

IBM   **HEROZ**   **Google**

AI SaaS(AI Software as a Service)

HEROZ

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

| Shogi game records | | Structural design data, financial data, etc. |

AI SaaS for deep learning and other machine learning
（AI Software as a Service）

| Shogi AI | | Construction AI Finance AI etc. |
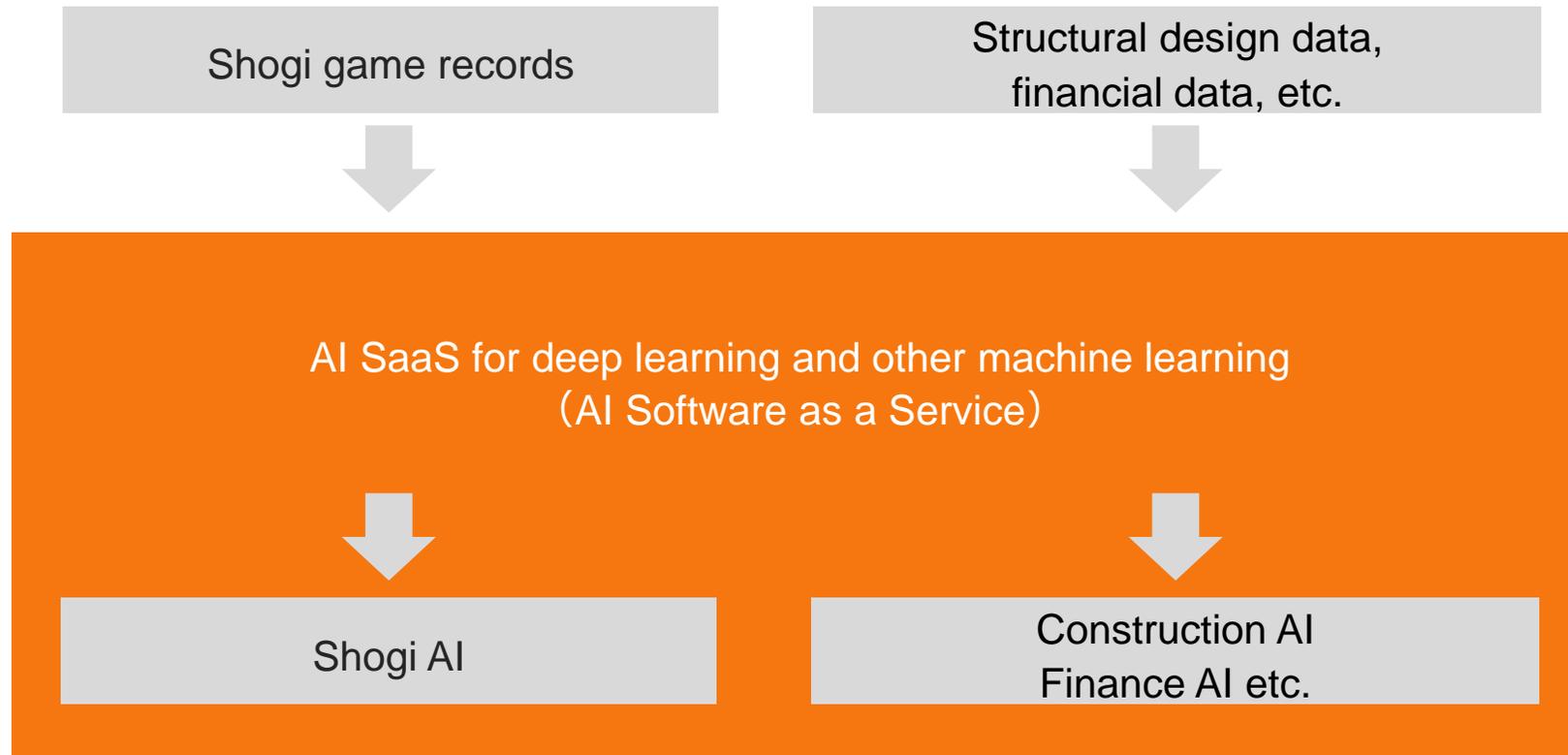
AI SaaS：AI Software as a Service is
　　　　　"Business model that provides models built by machine learning/deep learning as a service"

Profitability of AI SaaS

Client's data sent to HEROZ Kishin/model developed by machine learning

Output after machine learning through deep learning, etc.

Output applied in business settings

Accumulated data to be used for further machine learning
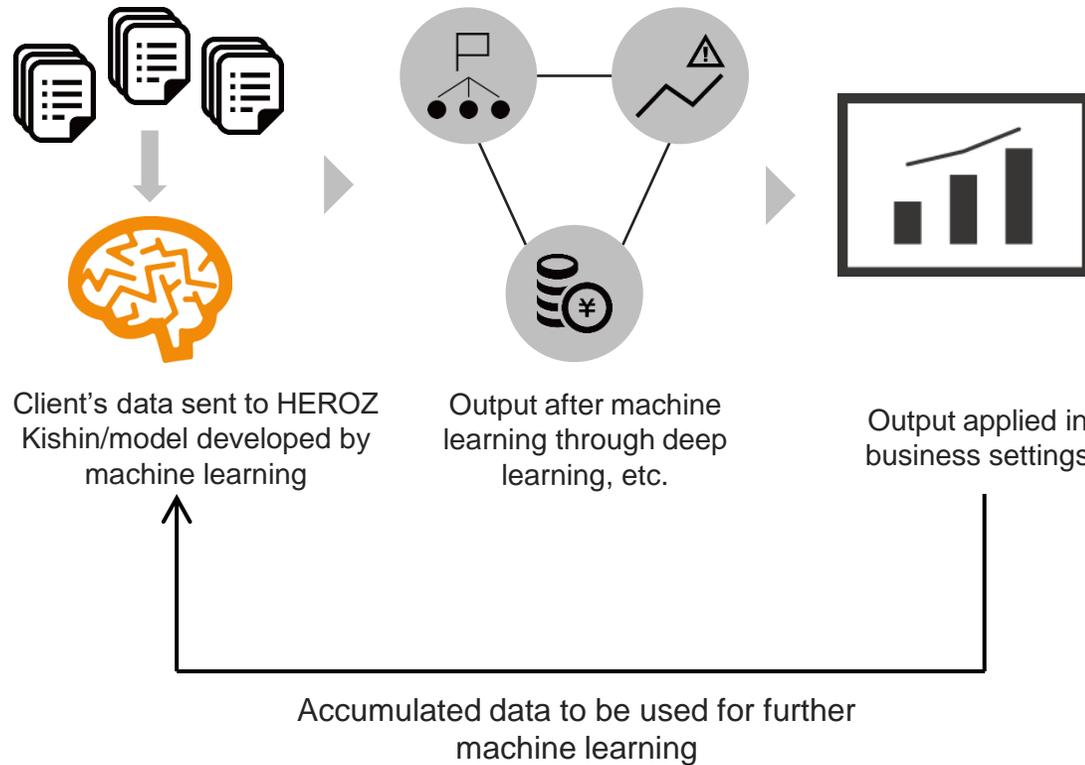
Output precision increases through repeated machine learning

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

Overview of VarioSecure Inc.

Name	VarioSecure Inc.
Established	June 2001
capital	749 million yen
Employees	74
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 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

GOOD DESIGN AWARD 2014年度受賞

ANAB bsi ISMS-AC
ITMS 652385 / ISO 20000-I

Osaka Office

Fukuoka Office

Tokyo Head Office

新御茶ノ水
小川町
淡路町
靖国通り
バリオセキュア株式会社
住友商事錦町ビル5F
神田
本郷通り

(As of February 28, 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

device data
Various hardware usage data stored in the company's network

transmission data
User behavior data collected via the network

SaaS usage data
Usage data for multiple SaaS accounts

personalized data
Data varies by individual and individual company

Aggregation of a wide variety of data

Insight Extraction

Advanced and semi-automated operations

system development

data science

AI development

Basic AI Technology

Automation of one-stop service for customers
✓ AI replaces complicated security settings and operations
✓ Anyone can easily implement advanced security

Turning Non-IT Professionals into IT Professionals
✓ Setting up and maintaining a security environment on the same level as large organizations

Reproduction of the professional skills of a master craftsman
✓ Identifying and handling irregularities that only an experienced veteran would notice.

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

Security Framework

Services of VarioSecure

Vario Secure

| Building Systems | Network Integration Services |

• Asset Management
• Vulnerability Management

| indentification | Vario Network Security Suite |

• Access Control
• Intrusion Prevention

| Protection | VSR-VarioSecure Router (Integrated Internet Security Services) |

| Detection | VCR-Vario Communicate Router (Sales of integrated security equipment for SMEs) |

• Detect and monitor security events

| | Vario-EDR Services |

| Support | VSR-VarioSecure Router (Integrated Internet Security Services) |

| Recovery | VDaP-Vario Data Protect (Data Backup Service) |

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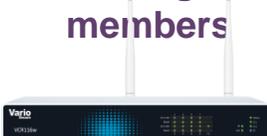
■ Provided mainly as an adjunct to the Internet connection

Overview of StrategIT Inc.
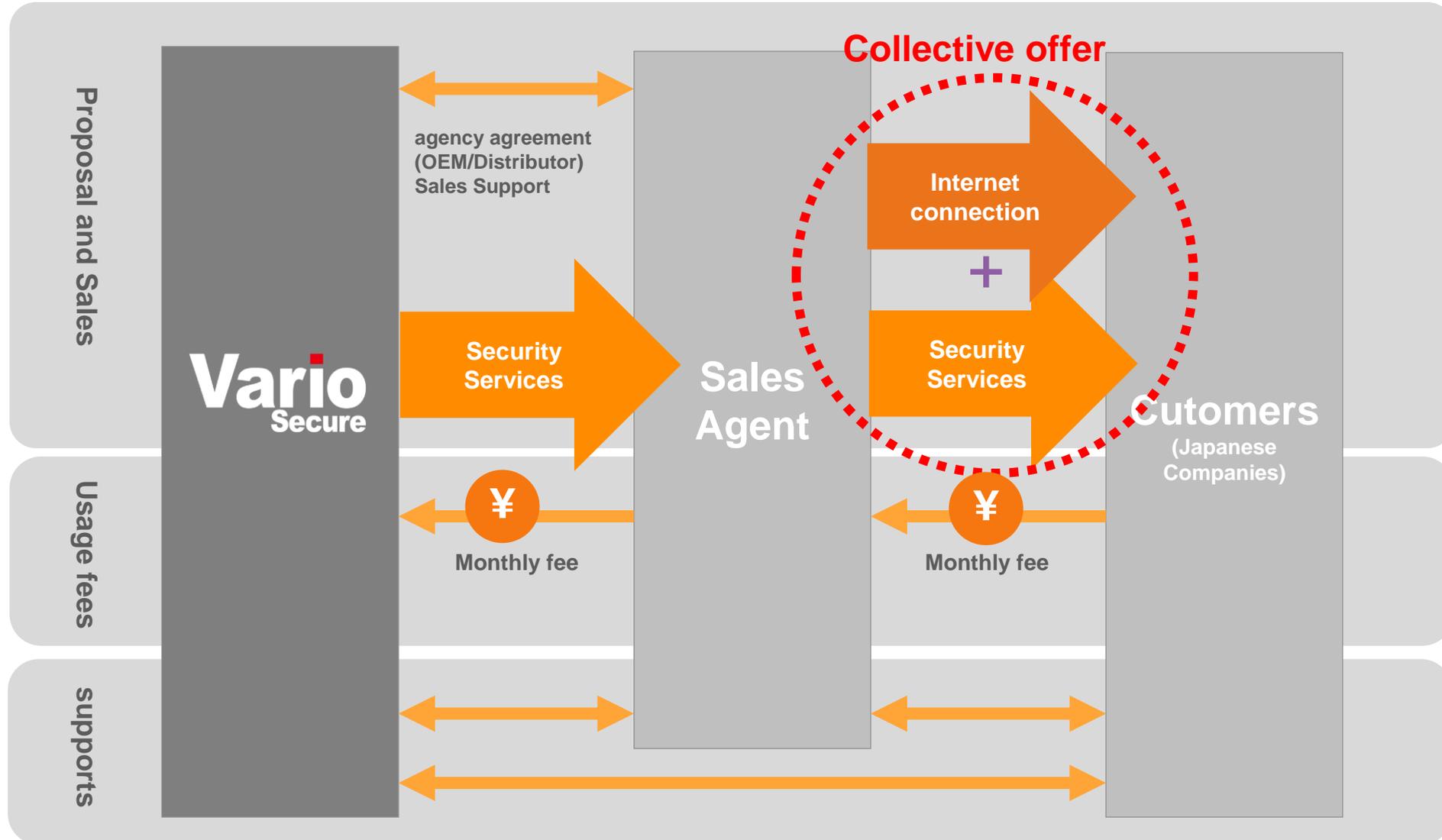
Name	StrategIT Inc.
Establish	July,2019
Capital	74 million yen
Employees	25(excludes outsourcing)
Location	PMO Tamachi 7F, 5-31-17 Shiba, Minato-ku, Tokyo
Buisiness	SaaS Solution Implementation Support SaaS API Linkage Development Service Operation of app store (SaaStainer)
President and Representative Director	Fumie Kato
Director and CTO Director Director Director	Yuhei Kawamoto Masaki Moriwaki（Outside Director） Takahiro Hayashi（Outside Director） Hiroya Mori（Outside Director）
Web	https://www.StrategIT.jp/

StrategIT

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

StrategIT's Business Overview

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.)

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

- Collaborative Development
  API integration development
  System integration, development of linked applications
  Official Apps
  Apps for major SaaS solution functions

  ・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

- SaaStainer
  App store（SaaStainer）
  Providing a platform for SaaS solution information

  ・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.