

Notice

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HEROZ

Presentation Material for
FY04/2023 Q1 Financial Results

September 9, 2022

HEROZ, Inc. (4382)

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Financial Highlights

Financial Highlights

FY04/2023 First Quarter Performance Summary

- Net sales: 375 million yen (+5.8%), EBITDA: 41 million yen (-12.5%), Operating income: 14 million yen (+56.4%) * () is the comparison with the same period of the previous year
- In AI (B to C) services, Shogi Wars has 6.7 million users and over 700 million total games played, contributing to stable growth
- With the established of the sales organization, the AI (B to B) business is currently exceeding the YoY level

Building a base for the development of AI SaaS business

- To expand a more stable revenue base, we have begun full-scale development of SaaS-type business, taking advantage of advanced AI development and implementation know-how
- Developing new services with our AI at VarioSecure (our affiliate company) and growing our business through AI x SaaS.

VarioSecure and StrategIT become consolidated subsidiaries.

- On August 31, 2022, the Company acquired 86.5% of StrategIT, Inc.
- Capital and business alliance agreement signed with VarioSecure K.K. today; we will underwrite a private placement of new shares by VarioSecure K.K. on September 27, 2022 (planned), making it a consolidated subsidiary of our company
- The company plans to disclose consolidated financial results in the fiscal year. Revised full-year forecast: consolidated net sales of 3.1 billion yen for the current fiscal year.
- Profits will be disclosed after an examination of the figures.



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	AI (B-to-B) services: AI Development Data Analytics
Description	AI (B-to-C) services: "Shogi Wars", etc.
Membership	Japan Deep Learning Association, The Japanese Society for Artificial Intelligence

- 2022** Moved to the Tokyo Stock Exchange Prime Market
- 2021** Capital and business alliance with VarioSecure Inc.
- 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 6th dan (highest rank after becoming national amateur champion)
7th 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

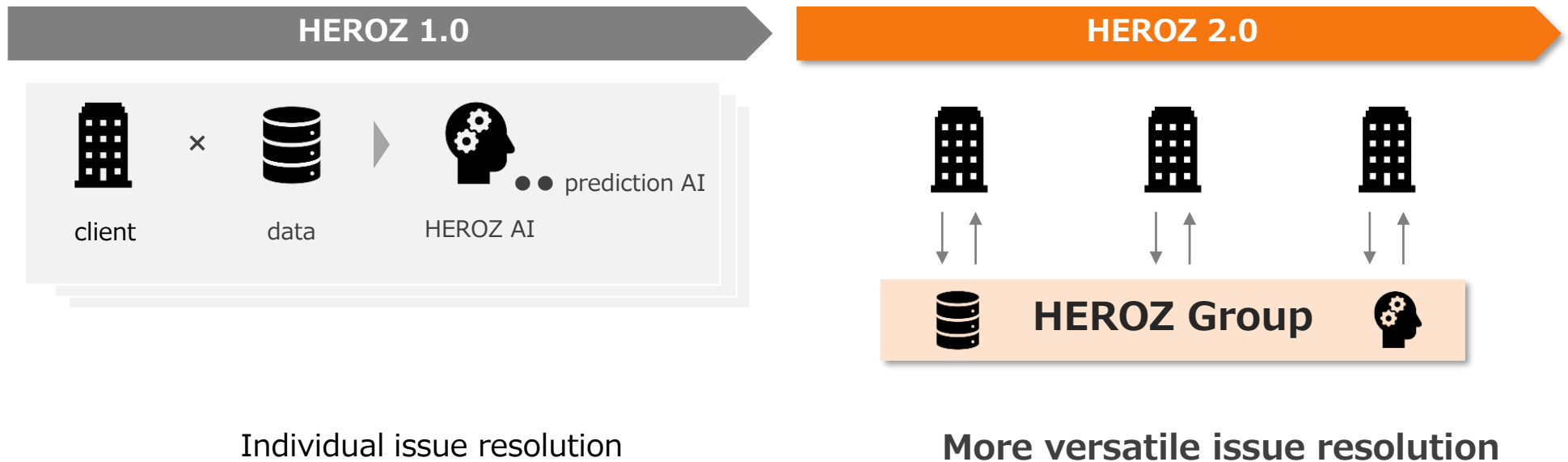
Graduated with a Master's degree from the University of Tokyo
Joined Panasonic Corporation and Deloitte Tohmatsu Consulting G.K.
Involved in projects such as new business strategy development

Our Vision

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

HEROZ Group Strategy → To HEROZ 2.0

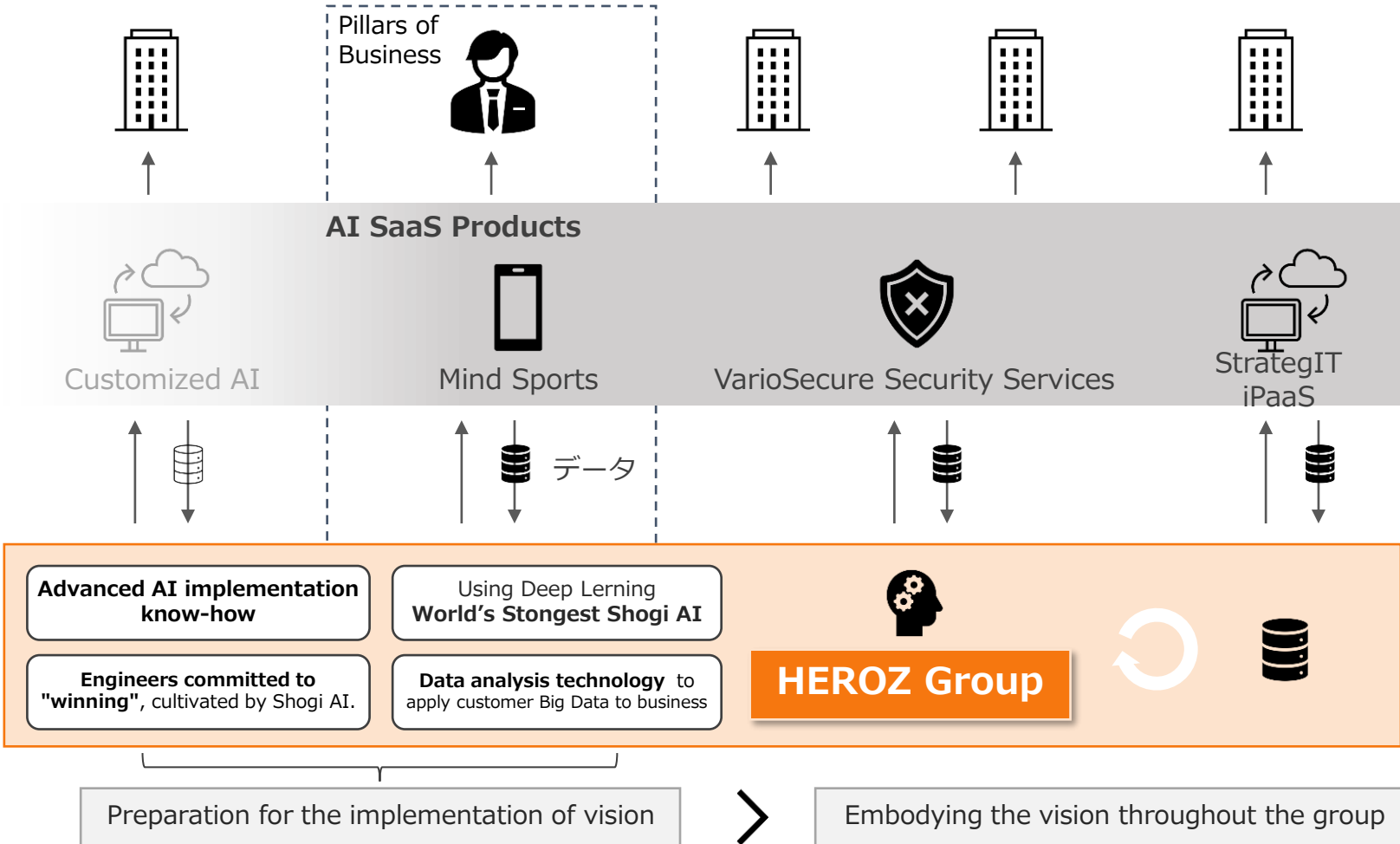
Based on the knowledge gained from our experience in solving individual customer issues, we will aim for SaaS-type business management driven by intelligence such as our data utilization and AI in the future. (HEROZ 2.0)



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.

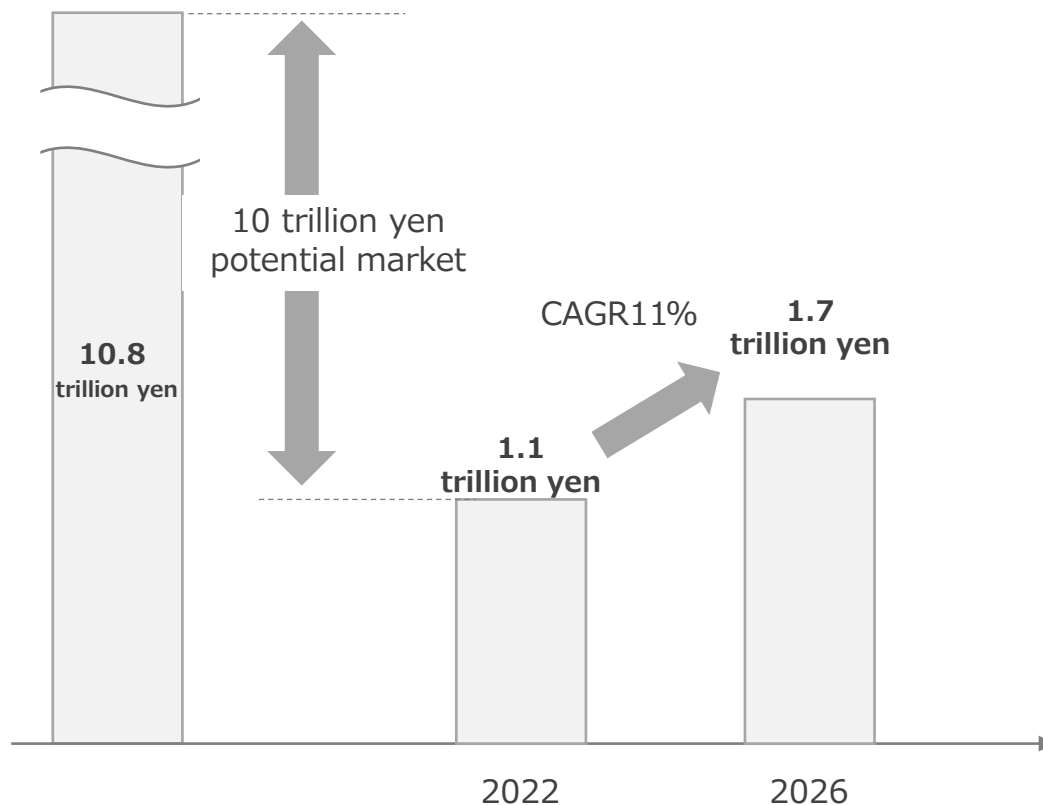


Aspect of the SaaS market and our views of the major trends

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

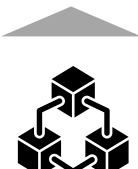
- Handling multiple SaaS is becoming the norm, and management costs are becoming bloated
- Therefore, there is a need for a migration service to ensure consistency and centralized management of information managed within each SaaS.



Advanced AI implementation know-how



Security



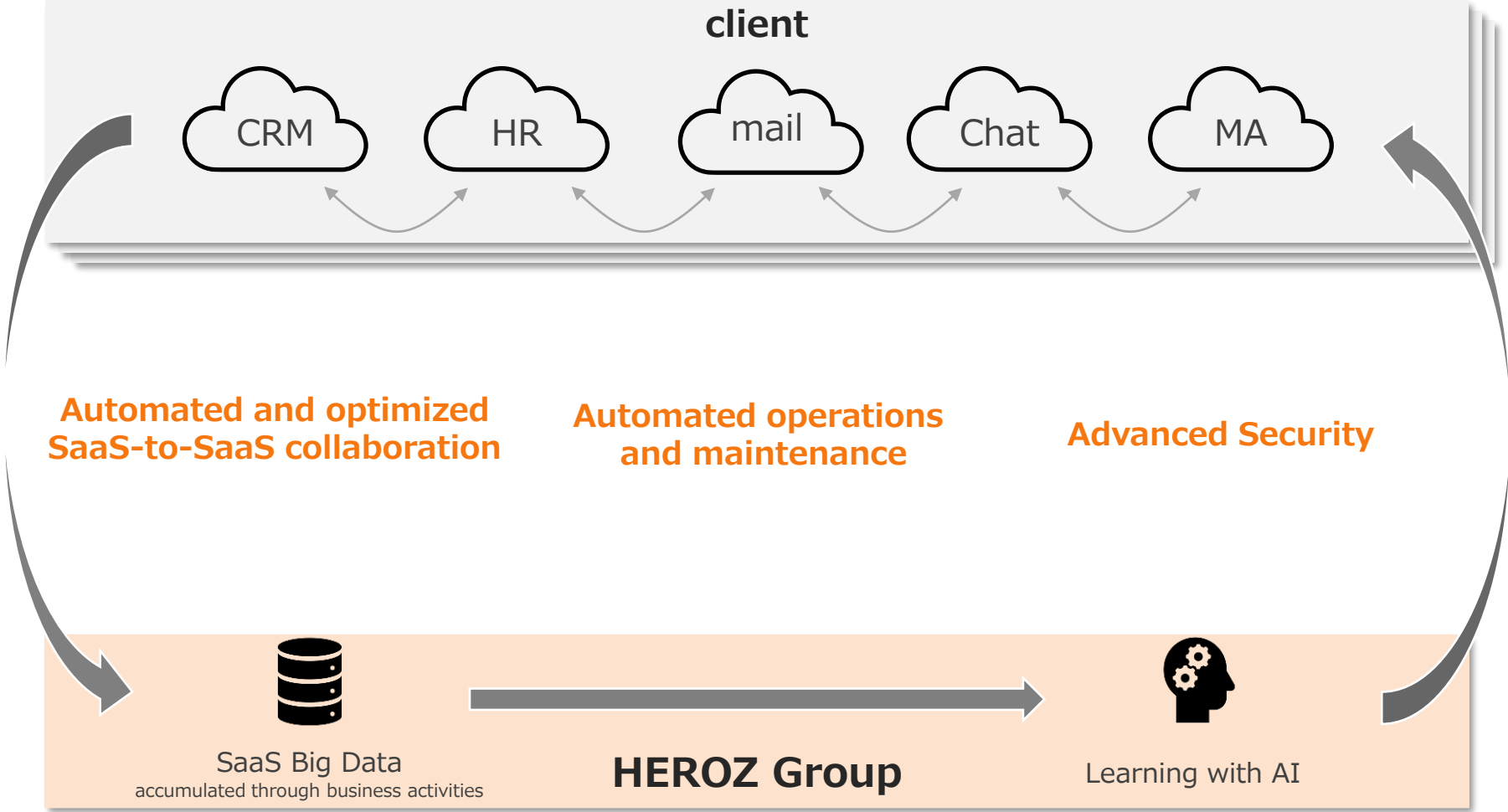
iPaaS

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





VarioSecure, Inc. becomes a consolidated subsidiary

Please refer to VarioSecure's Q1 FY02/2023 financial results presentation for more information on the company. Please click on the link below.

<https://www.variosecure.net/ir/library3/>

Overview of VarioSecure Inc.

Name	VarioSecure Inc.
Established	June 2001
capital	330.25 million yen
Employees	76
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 of Sales Div.	Yasufumi Kajiura
Director Technology Div.	Satoshi Yamamori
Director of Administration Div.	Hideko Isoe
Outside Director	Masataka Shiba
Outside Director	Keiichi Iguchi
Outside Auditor (Full-time)	Kenji Sakai
Outside Corporate Auditor	Hideo Fukai
Outside Corporate Auditor	Hidetaka Nishina
Web	https://www.variosecure.net/
Certification	ITSMS (ISO20000) 、 ISMS (ISO27001) 、 privacy mark



VarioSecure, Inc. becomes a consolidated subsidiary

Today, we signed a capital and business alliance agreement with VarioSecure, Inc. We will underwrite a third-party allotment of new shares to be conducted by VarioSecure in the later half of September to make it a consolidated subsidiary

Last year's capital and business alliance

This capital and business alliance

HEROZ

- 1,224,000 shares on September 10, 2021 (32.31%)
- VarioSecure's products are equipped with our AI "Kishin Monitor"

stock holdings
42.88%

Appointment of
majority board
members

Vario Secure

Becoming a consolidated subsidiary by subscribing to a capital increase

- Underwrite a third-party allocation of new shares of ¥836 million to be conducted by VarioSecure (scheduled for September 27)
- After the completion of the capital increase in late September, the Company holds 42.88% of VarioSecure's shares
- 6 out of 11 directors to be appointed by us

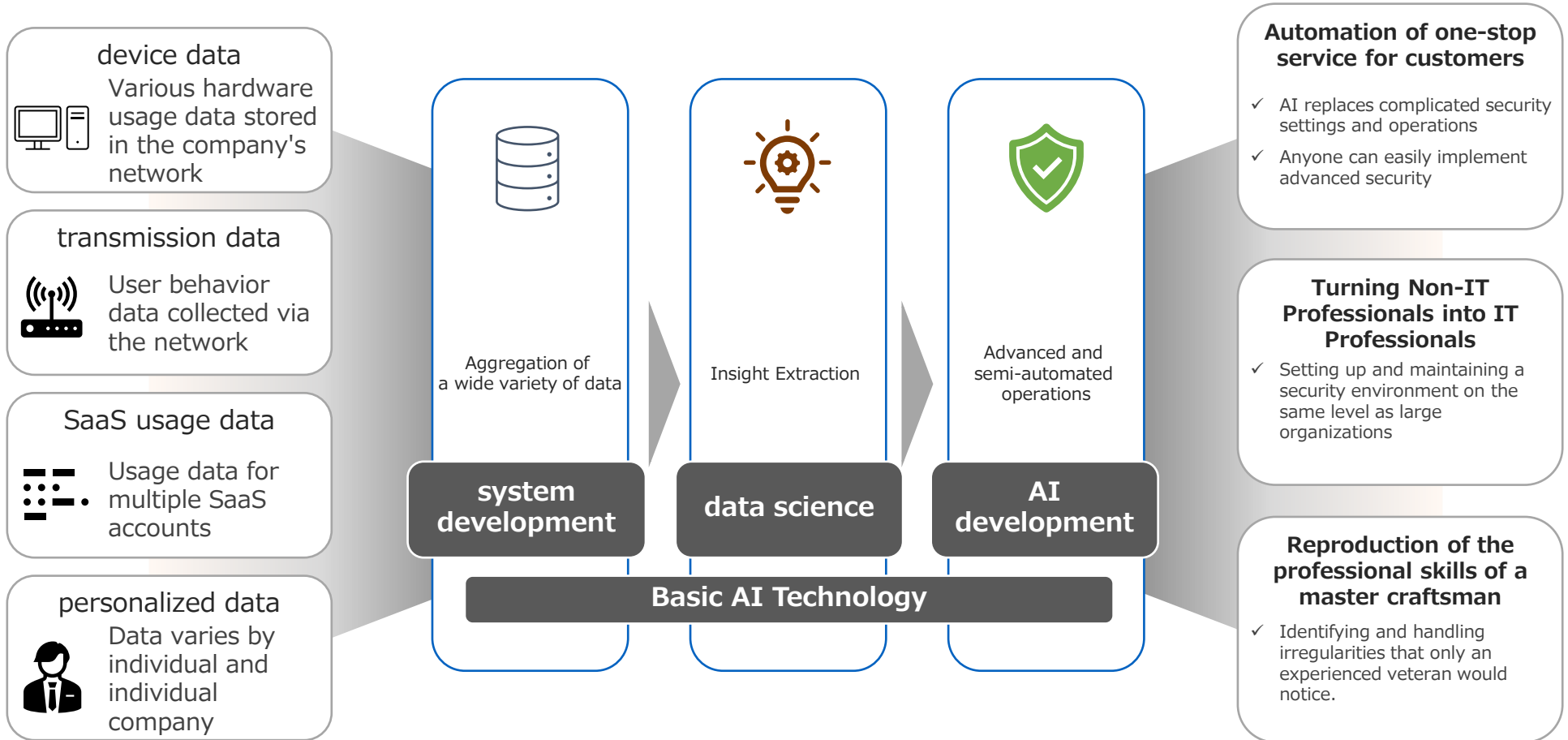
Contribution to consolidated PL will start in 3Q

- Became a consolidated subsidiary of the Company from the second quarter of the fiscal year ending April 30, 2023. (Only the balance sheet will be consolidated in the second quarter; contribution to the consolidated income statement is scheduled to begin in the third quarter.)

Toward the Realization of an AI Security Company

Provide customers with new safety and security in the age of zero-trust through the power of AI by utilizing a variety of corporate data.

Supporting digital transformation by supporting corporate safety and security from the ground up



AI Security Company's Growth Strategy

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

Realization of
AI Security Company

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

Service expansion
into the zero-trust area

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

Business system innovation
through the utilization of AI.

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

Investment breakdown of the capital increase of VarioSecure, Inc.

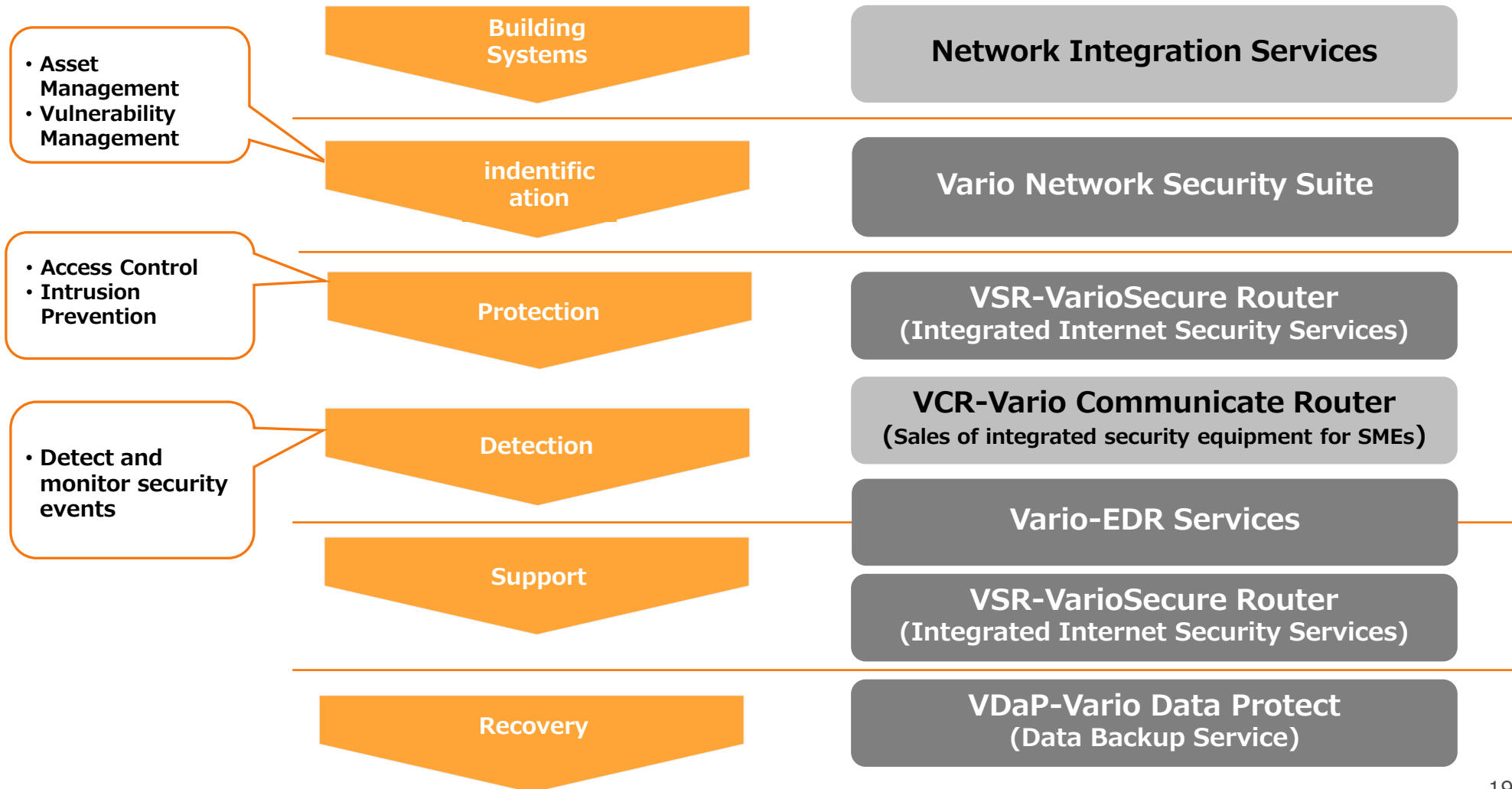
In order to realize the strategy, we will promote investment in the following items with the amount of VarioSecure's capital increase subscription by us

	Specific Uses	Amount	Expected time of expenditure
①	New service planning, development system, and sales department reinforcement	258.38 (millions of yen)	From March 2023 To February 2026
②	Development of new services	100 (millions of yen)	From March 2023 To February 2026
③	Strengthen SoC (operation) services	55 (millions of yen)	From March 2023 To February 2026
④	Funds for investment in companies that have our peripheral technologies and services	400 (millions of yen)	From March 2024 To February 2026
	Total	813.38 (millions of yen)	—


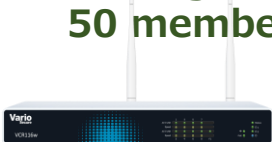



(Reference) Business Overview

- Services provided by VarioSecure

Security Framework

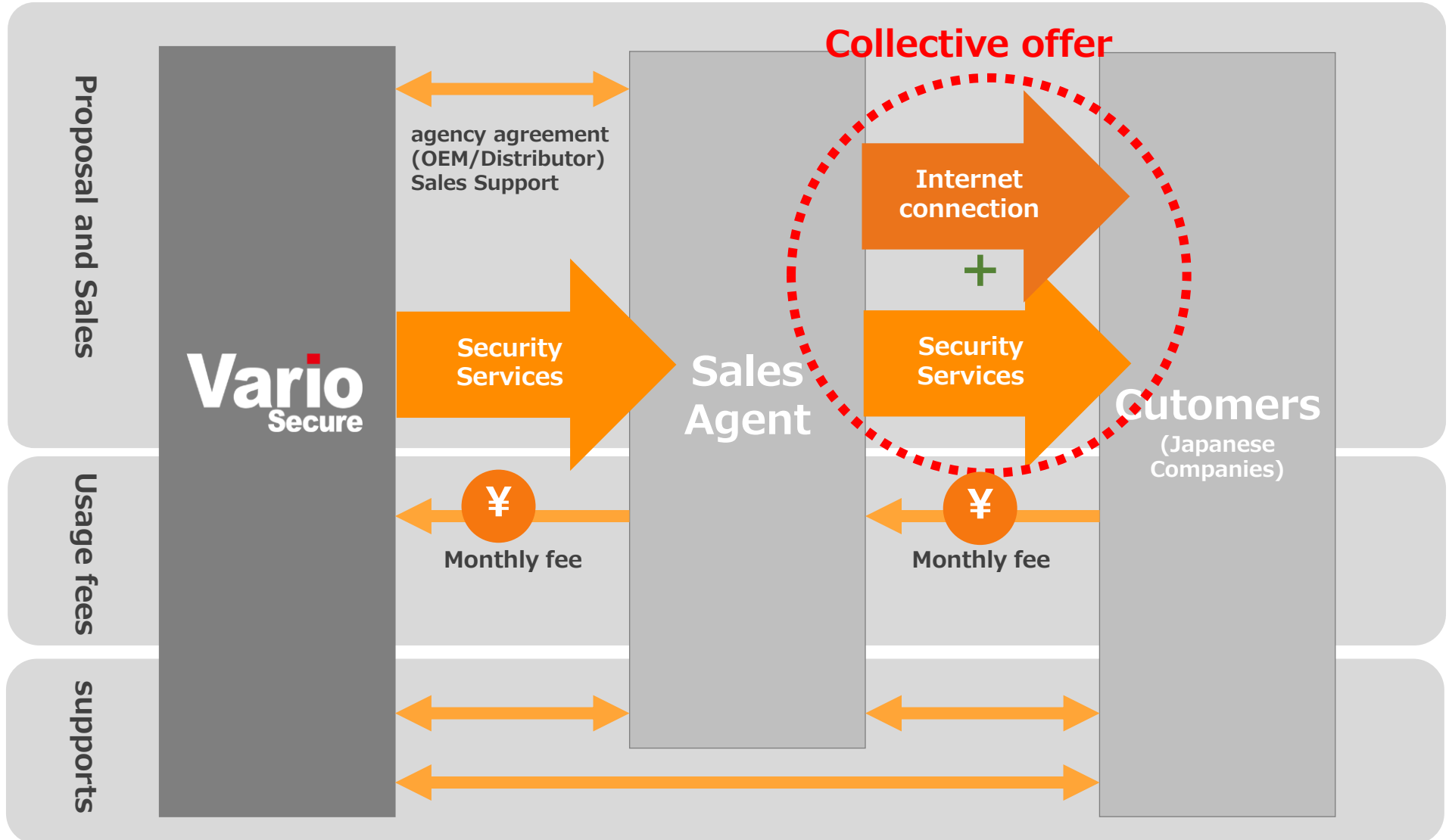


(Reference) Providing services that make Internet use safe and comfortable

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

(Reference) VarioSecure's business model

- Provided mainly as an adjunct to the Internet connection





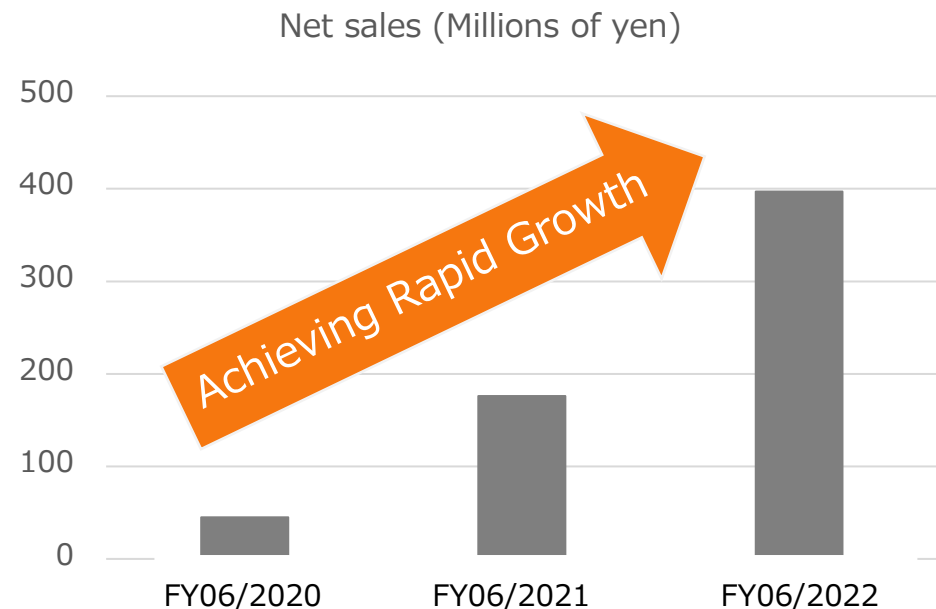
**StrategIT Inc.
becomes a consolidated subsidiary**

Overview of StrategIT Inc.



Name	StrategIT Inc.
Establish	July,2019
Capital	24 million yen
Employees	35(Includes outsourcing)
Location	11-14, Higashi-Kanda 1-chome, Chiyoda-ku, Tokyo Tosin Higashi-Kanda Bldg. 5F
Buisness	SaaS Solution Implementation Support SaaS API Linkage Development Service Operation of app store (SaaStainer)
President and Representative Director	Fumie Kato
Director and CTO	Yuhei Kawamoto
Director	Masaki Moriwaki (Part-time officer)
Director	Takahiro Hayashi (Part-time officer)
Director	Hiroya Mori (Part-time officer)
Web	https://www.StrategIT.jp/

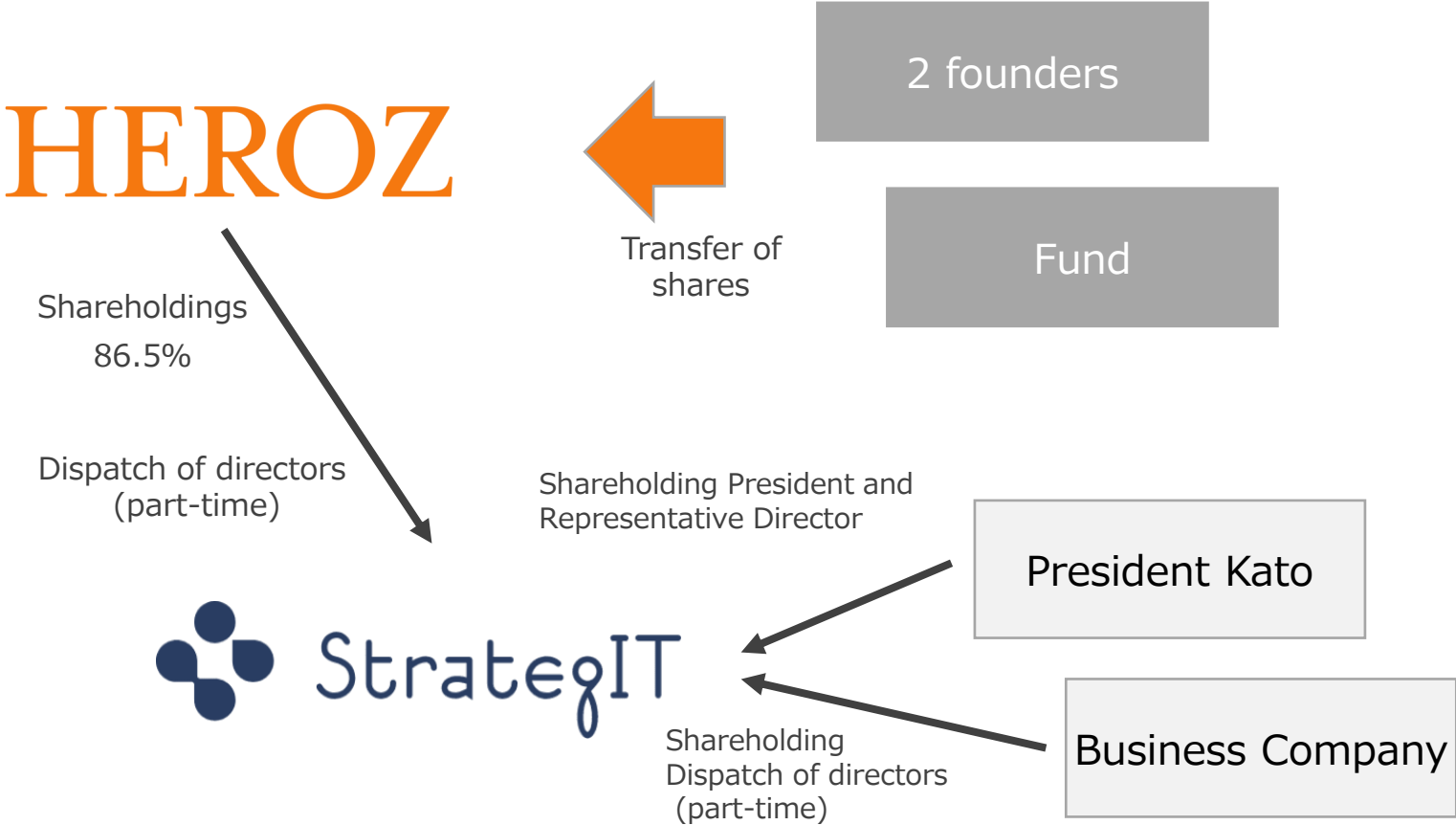
Our vision is to contribute to management improvement by integrating "Strategy" and "IT"
And our mission is to bring the power of SaaS to all companies
We aim to be a company that promotes the utilization and value enhancement of SaaS



StrategIT Inc. becomes a consolidated subsidiary

On August 31, 2022, we acquired the shares of StrategIT from the two founders and the fund
Shareholding ratio after the acquisition was 86.5%, making the company a consolidated subsidiary

Dispatch of two part-time directors from the Company



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.)
- Collaborative Development
API integration development
System integration, development of linked applications
Official Apps
Apps for major SaaS solution functions
- SaaStainer
App store (SaaStainer)
Providing a platform for SaaS solution information

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

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

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

2) New Products Development

- MasterHub API Platform (MAPIP)
Collaborative Platform Application

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

Strengths and Features with StrategIT

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

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



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



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



FY04/2023

Q 1 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.
- The number of years for amortization of goodwill is determined for each investment individually in consultation with the audit firm.

Performance Overview (May 2022-July 2022)

- Our sales peaked in FY04/2020 and continued to decline until the previous fiscal year, but we have once again made a commitment as management to shift to a growth path and realized a 5.8% increase in sales in the first quarter of FY04/2023 compared to the same period of the previous year
- As for costs, we have continued to make upfront investments for growth until last year, but now that these investments have run their course, costs have been restrained to last year's full-year level
- Operating Profit also exceeded last year's results

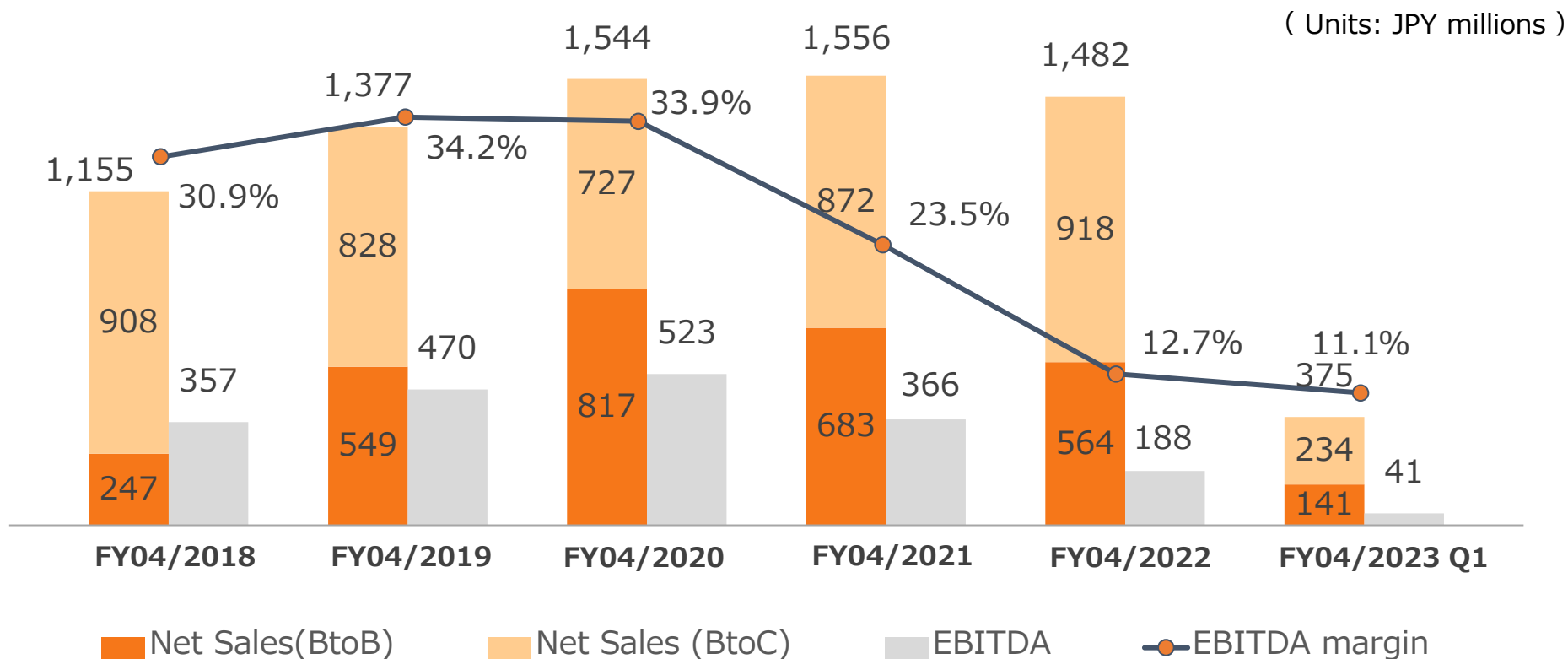
(Units: JPY millions)	FY04/2023 Q1 Actual	(Reference) FY04/2022 Q1 Actual	YoY (%)	FY04/2023 Forecast	Actual to Forecast (%)
Net Sales	375	354	+5.8%	1,700	22.1%
EBITDA*	41	47	-12.5%	200	20.8%
<i>EBITDA Margin</i>	<i>11.1%</i>	<i>13.4%</i>	—	<i>11.8%</i>	—
Operating Profit	14	9	+56.4%	50	28.8%
<i>Operating Margin</i>	<i>3.8%</i>	<i>2.6%</i>	—	<i>2.9%</i>	—
Ordinary Profit	4	6	-37.3%	100	4.1%
Net Income	7	3	+117.9%	60	13.0%

* EBITDA = Operating Profit + Depreciation Expenses + Amortization of Lease Deposits

* * Non-Consolidated Earnings Forecast

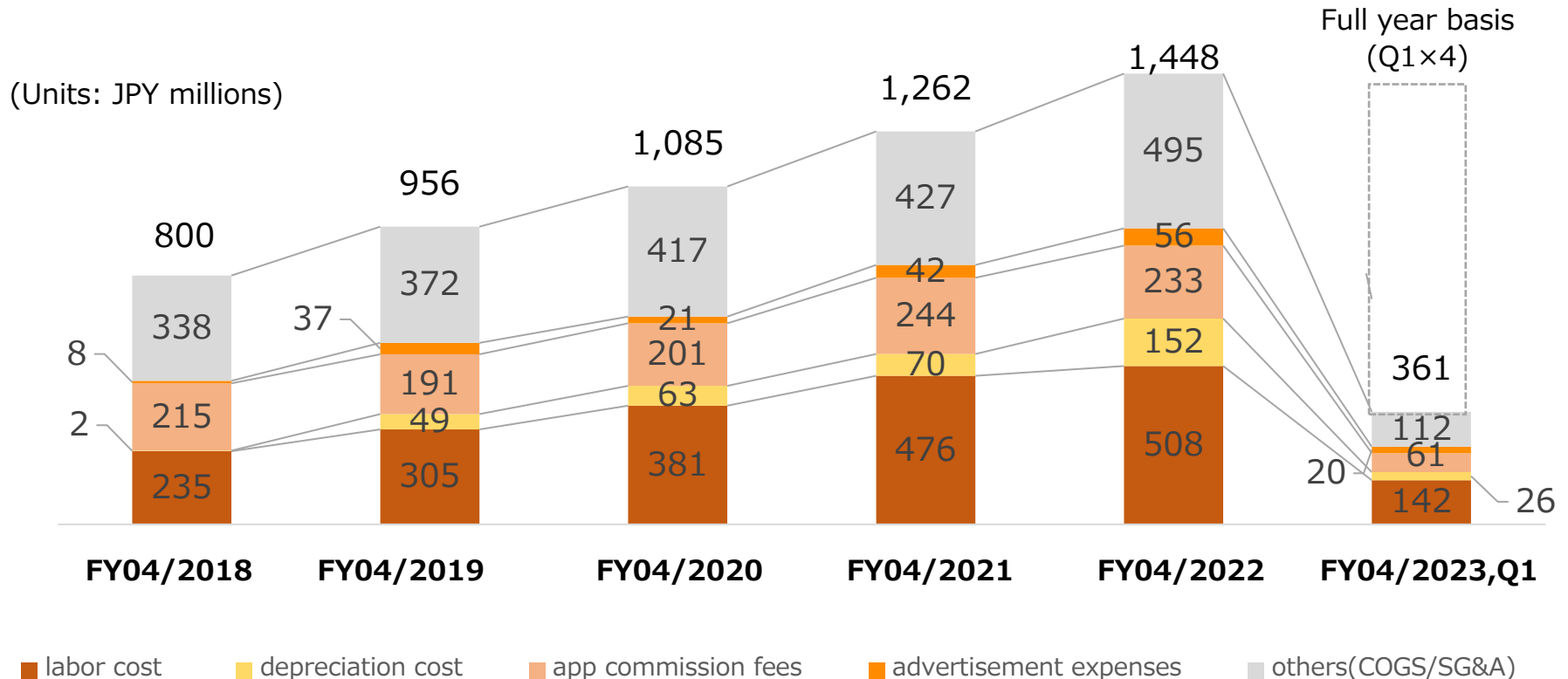
Net sales and EBITDA Trends

- Sales of AI (BtoB) services increased 6.4% YoY as a result of a newly established sales and marketing organization and strengthened customer acquisition activities
- Sales of AI (BtoC) services increased due to the effects of event and additional functions in the mainstay "Shogi Wars," and in May 2022, "Kishin Analytics," which supports professional Shogi AI research using Shogi AI, was released and As a result of its contribution to sales, revenue increased by 5.5% YoY.



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 in Q1 of this fiscal year are on last year's basis (Q1 361 million yen x 4 = 1,444 million yen (full year basis))
- In FY 04/2023, grow sales of AI (BtoB) services by developing customers, establishing sales marketing organizations, and by strengthening cooperation with VarioSecure and StrategIT



Balance Sheet (as of July 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.

Units: JPY millions	As of 7/30/2022	As of 4/30/2022
Current Assets	3,949	3,959
Cash and deposits	3,694	3,660
Fixed Assets	2,673	2,675
Property, plant and equipment	234	260
Intangible assets	37	25
Investments and other assets	2,401	2,390
Total Assets	6,623	6,635
Current Liabilities	174	194
Fixed Liabilities	–	–
Net Assets	6,448	6,440



Revision of Earnings Forecast FY 04/2023

Transition to Consolidated Financial Results

- With the acquisition of StrategIT's shares on August 31 and the subscription to a third-party allotment of new shares by VarioSecure on September 27 (planned), we will shift to a consolidated financial statement
- 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 Full-Year Earnings Forecasts for the Fiscal Year Ending April 2023

- Full-year sales are expected to be 3.1 billion yen on a consolidated basis, compared to our initial forecast of 1.7 billion yen on a non-consolidated basis and 1.48 billion yen in last year's results
- Consolidated operating income, consolidated ordinary income, net income attributable to the parent company, and net income per share forecasts are currently being reviewed and disclosed on an undetermined basis due to the need to examine various consolidation-related journal entries in conjunction with the transition to consolidated financial statements
- To be disclosed as soon as the scrutiny is completed

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

(JPY millions)	Net sales	Operating Profit	Ordinary Profit	Net Income	Net income per share (JPY)
FY 04/2023	3,100	Under Reviewing	Under Reviewing	Under Reviewing	Under Reviewing
(Actual) FY 04/2022	1,482	34	87	49	3.29

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



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

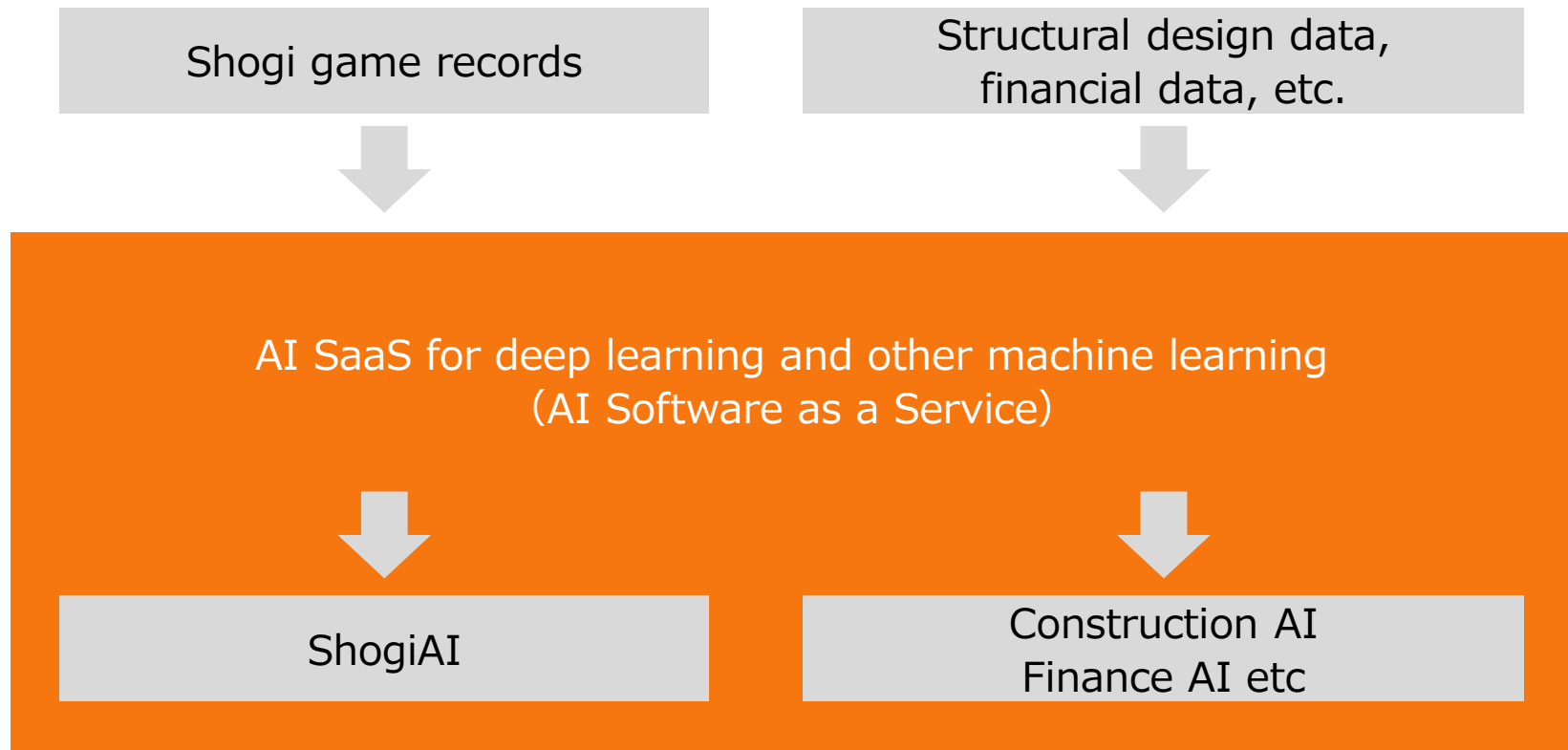


Google acquired Deep Mind ('14) AlphaGo, developed by Deep Mind, defeated a professional Go player ('16)

Google

AI SaaS (AI Software as a Service)

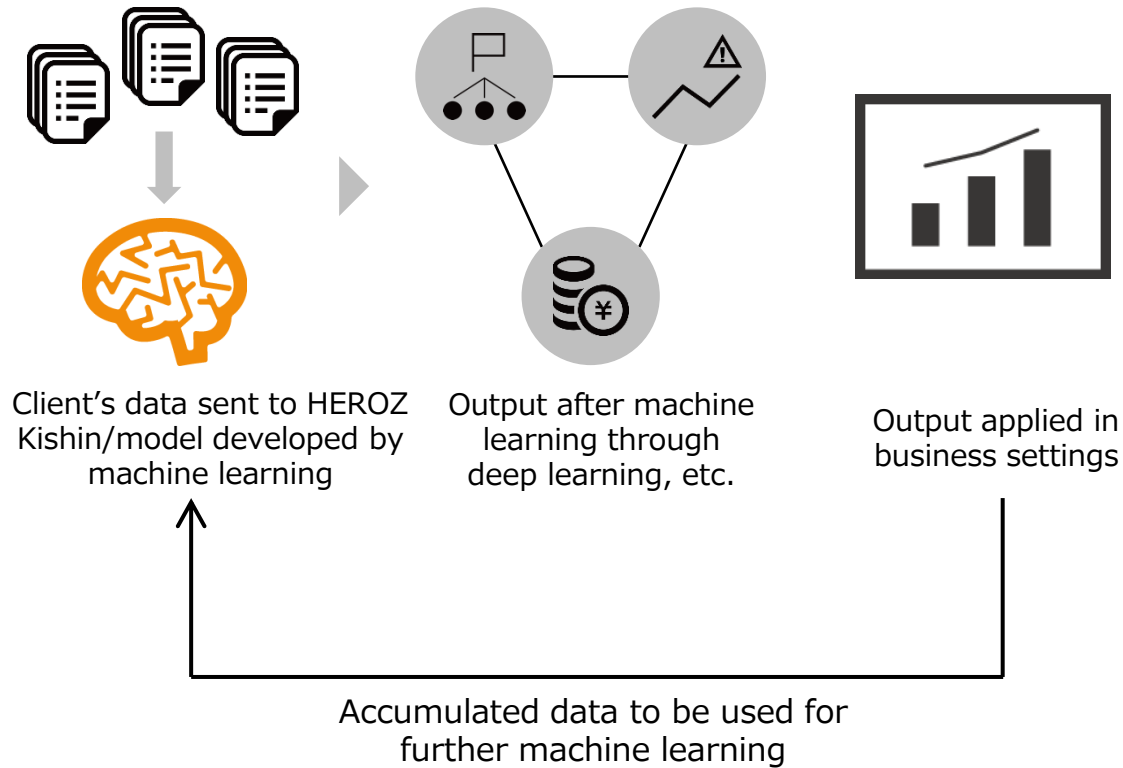
Developing our AI construction capabilities cultivated through machine learning using deep learning of vast Shogi game data in the construction, finance, entertainment, and other fields



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

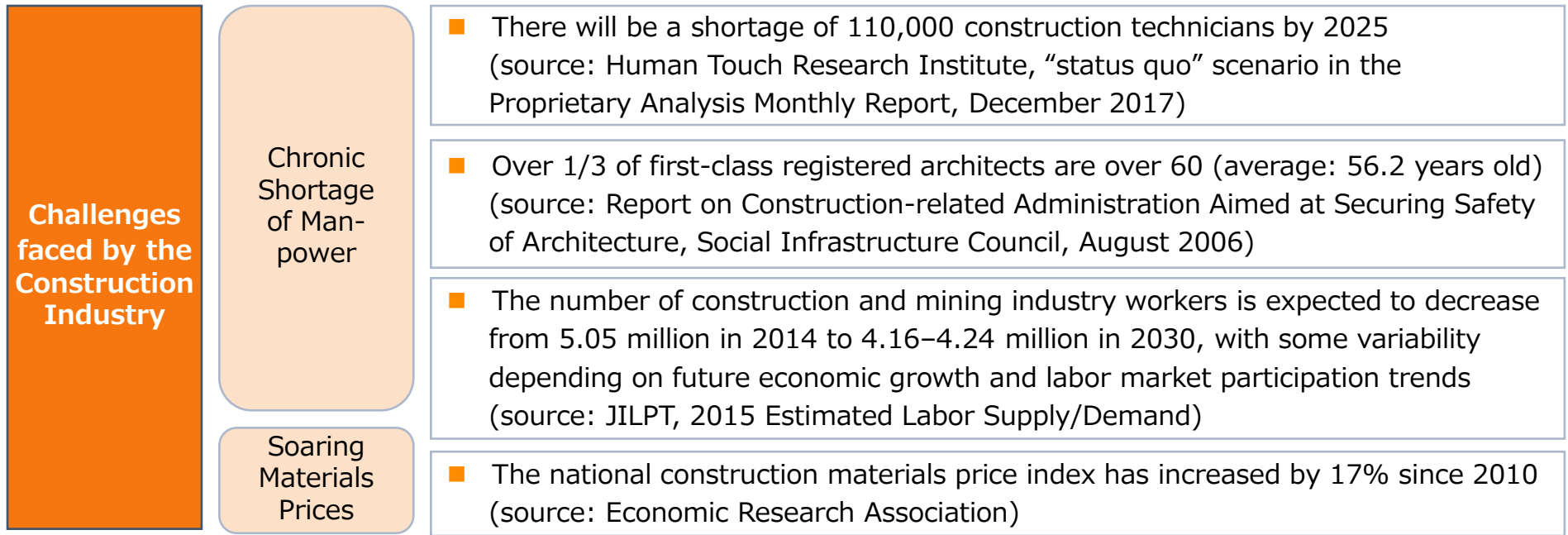
Provide comprehensive AI services with massive servers

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)

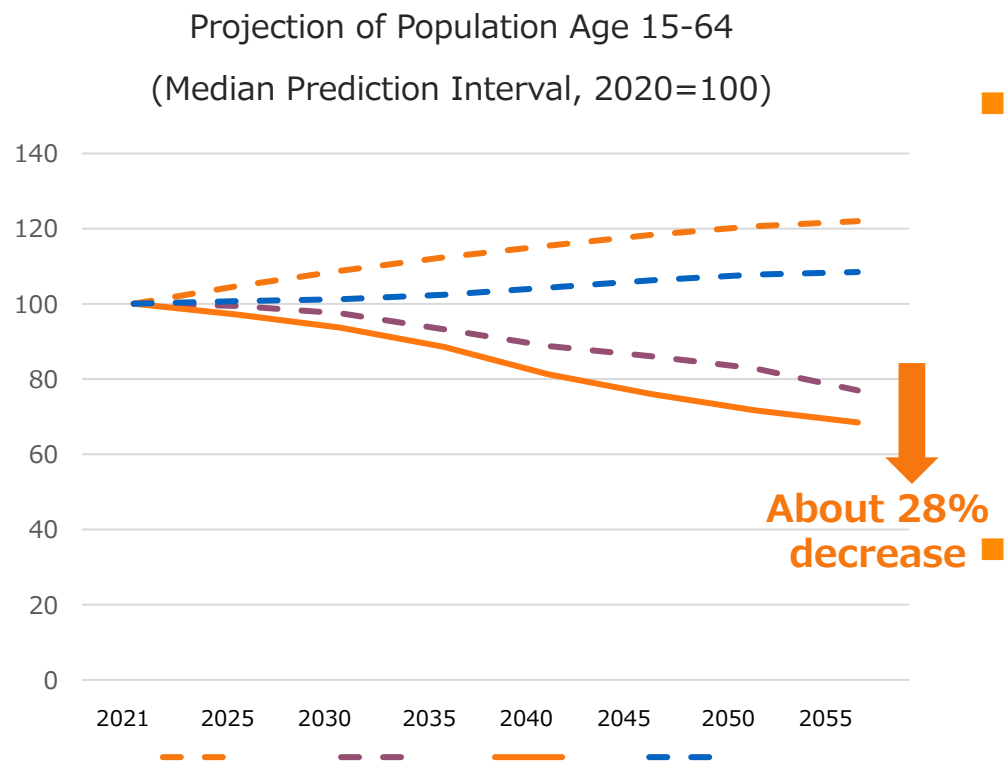
- We believe there is also significant potential demand for enhancing operational efficiency through AI in the construction industry, which is one of our areas of focus



- 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



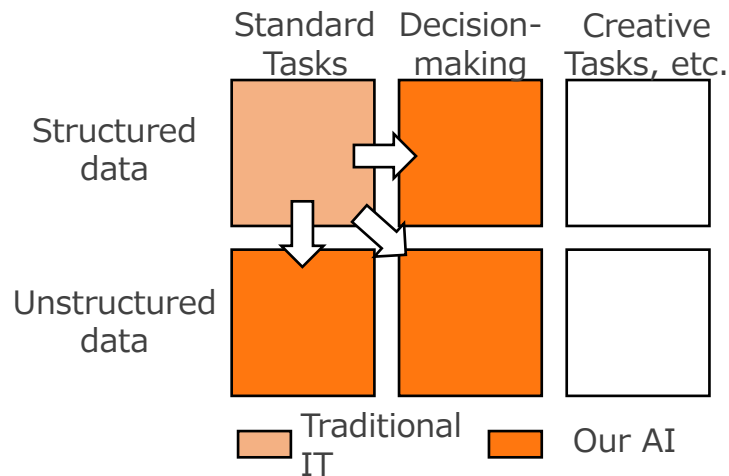
- When defining the working population as those aged 15-64, the world average is forecasted to increase by about 12% from 2020 to 2035 and by about 21% from 2020 to 2055. On the other hand, the working population is expected to decrease by about 11% and about 28% during the same periods, respectively

- 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.