

HEROZ

Presentation Material for FY04/2024 Full Year Financial Results

June 14, 2024

HEROZ, Inc. | 4382 |

notice

This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

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01

Financial Highlights

FY04/2024 Full Year Performance Summary

- Cumulative results for the fiscal year ending April 2024 are as follows: net sales of 4,841 million yen (up 62.4% YoY), EBITDA of 901 million yen (up 47.8% YoY), and operating income of 451 million yen (up 75.0% YoY).
- In the AI/DX business, HEROZ's BtoB business grew by slightly less than 20% and BtoC business by about 9% throughout the fiscal year, and the contact center product business of A.I. Squared, which became a group company in November, also contributed.
- "HEROZ ASK" and "JOINT" products have been launched, and recurring revenue will be expanded in the future.

Two new companies were consolidated in FY04/2024

- A.I. Squared(hereinafter referred to as "AI2") and Tifana.com (hereinafter referred to as "Tifana") became group companies through M&A in November and March, respectively . AI2 will contribute 5 months to the business results for the fiscal year ending April 2024, and Tifana's business results will be reflected from the next fiscal year.
- The "Quick" series of AI products for call centers and the "AI Sakura-san" series is added to the Group's AI SaaS products, accelerating synergies among products in the Group as a whole.

Group Strategy HEROZ 3.0 "Sell Work, not AI."

- With the development of Generative AI, AI can handle a significant portion of tasks that were previously handled by humans. However, we will go beyond mere provision of tools, and will create fundamental business reforms utilizing Generative AI, and provide Work in areas previously handled by people (we will develop this business as one established business).
- In accordance with this strategy, AI2 and Tifana will become group companies in November 2023 and March 2024, respectively.
- For the time being, the company plans to promote the strategy with a view to providing Work for contact center operations.

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 is mainly depreciated using the declining-balance method with a useful life of 5 years.
 - Goodwill accrual (at acquisition) and amortization period
 - VarioSecure 14 years (2,180 million yen), StrategIT 9 years (219 million yen)
 - AI2 12 years (273 million yen) *Amortization begins in October 2023
 - Tifana.com 15 years (627 million yen) *Additional goodwill is expected to accrue in the future.

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.

02

Introduction to Our Group Businesses

● Sales Trends and Main History

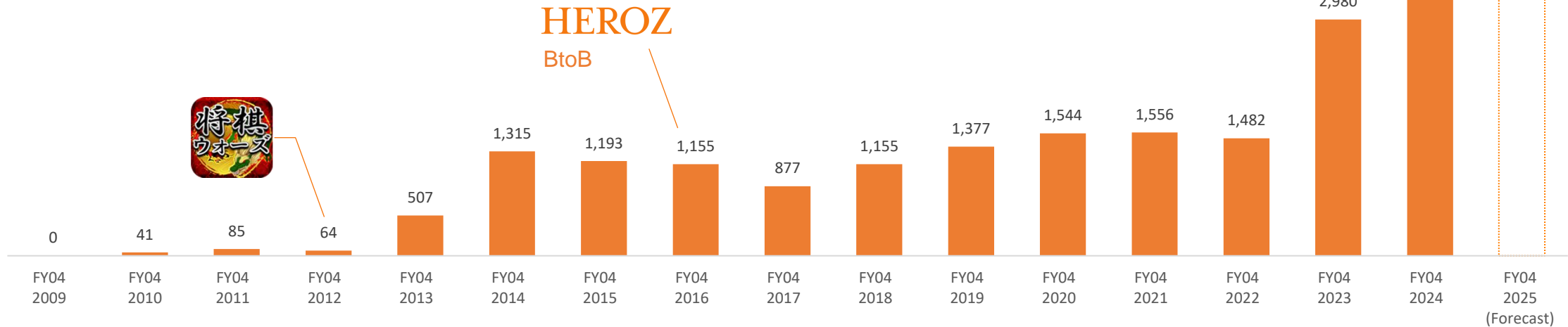
(Million of Yens)

HEROZ was founded with the concept of "Surprise to the Heart", aiming to create services that will surprise the world.

We believe that everyone has unique abilities, and through the creation of our services, we would like to help "give birth to as many heroes as possible".

We want to do things that maximize the power of technology while at the same time making things interesting and surprising people, and this desire is at the root of HEROZ's "Surprise to the Heart" concept.

Newly added companies to our group



- 2009** Established
- 2012** "Shogi Wars" released.
- 2013** Shogi AI developed by our engineers (at the time) won against an active professional Shogi player.

- 2016** JVA2016 Small and Medium Enterprise Agency Director-General's Award
- 2017** Capital and business alliances with various partners
- 2018** Listed on the Tokyo Stock Exchange.

- 2022** Vario Secure becomes a group company
StrategIT becomes a group company
- 2023** A.I.Squared becomes a group company
- 2024** Tifana.com becomes a group company

Group management structure after Tifana.com becomes a group company in March 2024

Combined sales of the five companies will be approximately 6 billion yen (forecast for the fiscal year ending April 2025)





Listed on the TSE (securities code 4382)

Fiscal year ending April 2024 (consolidated)


- Net Sales 4,841 million yen
- Operating Profit 451 million yen

- Approximately 43% owned
- Appoint a majority of the board members
- Dispatch 3 directors

- Approximately 92% owned
- Dispatch 2 directors

- Approximately 51% owned
- Dispatch 4 directors

- 100% owned
- Dispatch President and Representative Director
- Dispatch 3 directors



Listed on the TSE (securities code 4494)

Provides security services primarily to small and medium-sized businesses

Fiscal year end: February



Established in 2019

Provides "JOINT", a SaaS-to-SaaS collaboration platform

Fiscal year end: February



Established in 2015

Provides AI products for contact centers

Deemed acquisition date: October 1, 2023

Fiscal year end: February



Established in 2000

Providing "AI Sakura-san" Series

Deemed acquisition date: February 29, 2024

Fiscal year end: February

Group Business Structure

- We have two businesses: AI/DX Services and AI Security Services.
- A.I. Squared and Tifana.com, which became group companies in FY4/2024, are classified as AI/DX Services

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

Segment	AI/DX Services					AI Security Services
	BtoC	BtoB				
Business Contents	 <p>Shogi SaaS business for individuals, including "Shogi Wars," utilizing AI and other technological capabilities that won the World Computer Shogi Championship.</p>	 <p>Promote AI Transformation through customer data analysis and AI solution development</p> <p>HEROZ ASK, an AI assistant for LLM in the business world.</p>	 <p>Focusing on SaaS implementation support and SaaS-to-SaaS integration services</p> <p>Launched "Joint iPaas for SaaS," a SaaS integration product for SaaS vendors.</p>	 <p>Providing AI products such as natural language processing in the contact center domain</p> <p>Deployment of business automation solutions including automatic response and automatic summarization</p>	 <p>Providing "AI Sakura-san" series of DX solutions that are in use in various areas</p> <p>"AI Sakura-san" actively works in various fields, including stations, airports, and internal help desks of companies.</p>	 <p>Provides security services primarily to small and medium-sized businesses</p> <p>In addition to integrated Internet security services, vulnerability assessment services and off-the-shelf products are also available.</p>
Main KPI	<p>Recurring Revenue</p> <ul style="list-style-type: none"> MAU※1 Billing rate MPU※2 ARPPU※3 	<p>Recurring Revenue and Solution revenue</p> <ul style="list-style-type: none"> Recurring Revenue Ratio number of customers number of employees utilization rate/unit cost revenue per employee Number of operating projects 	<p>Recurring Revenue and Solution revenue</p> <ul style="list-style-type: none"> Recurring Revenue Ratio number of customers number of employees utilization rate/unit cost revenue per employee ARPPU※3 	<p>Recurring Revenue</p> <ul style="list-style-type: none"> Recurring Revenue Ratio number of customers churned revenue per customer 	<p>Recurring Revenue</p> <ul style="list-style-type: none"> Recurring Revenue Ratio number of customers number of units installed unit price churned 	<p>Recurring Revenue</p> <ul style="list-style-type: none"> number of customers churned revenue per customer

HEROZ Group Business Overview

Promote maximization of Shogi population

Supporting corporate AIX from the perspectives of both individual AI solution development and AI SaaS

“Shogi Wars”, “Kishin Learning” and other platforms to enjoy Shogi in a familiar way.



Providing AI solutions mainly in the finance, entertainment, and construction domains.



Promoting social implementation of LLM through the introduction of SaaS



Accelerate AI SaaS across the Group with HEROZ ASK as the foundation for LLM

HEROZ ASK X


 QuickQA
自動応答システム


 QuickSummary
自動要約・分類システム


 JOINT
 AIさくらさんシリーズ





Shogi playing platform officially recognized by the Japan Shogi Federation

HEROZ BtoB Services

AIX/DX support for enterprise

HEROZ



AI assistant service using Generative AI (LLM)



Platforms that support SaaS-to-SaaS collaboration

StrategIT



QuickQA

AI products to help call centers improve operational efficiency

AI SQUARED
After Internet x Artificial Intelligence



DX Solutions in action at stations and commercial facilities

Tifana.com
Web・AI制作会社 ティファナ

/VariOS

Firewall-type security system

Vario Secure

In addition to the focus businesses listed above, each company is engaged in several other businesses.

03

Updates on Our Group Strategy

Creating the future through AI Revolutions

Creating Value through AI

HEROZ's vision is "Creating the future through AI Revolutions".

With the evolution of Generative AI, we have entered an era in which AI has deeply penetrated our lives, automating and assisting us in various daily activities. This allows us to focus on what is truly important: self-realization and the realization of an ideal society. AI does not take away human jobs, but opens up new opportunities and possibilities, and creates new value together with humans. Our goal is not to provide AI as a mere tool, but to contribute to society by allowing AI to play a creative and valuable role as well.

Looming Decline in Labor Force

Japan faces the challenge of a labor shortage due to a declining birthrate and an aging population; coexistence with AI is the key to solving this problem. We believe that when humans and AI work together, new ideas and solutions will emerge to build a prosperous and vibrant society.

AI Revolution realized in Shogi

The Shogi AI developed by our members is a historical prime example. When the Shogi AI won the first victory over a professional Shogi player, many people were pessimistic about the future of the Shogi world. However, now AI is helping players learn more and evaluating the board to provide new enjoyment that is easy for spectators to understand. More than 10 years have passed since AI vs professional players, but people's desire to enjoy Shogi has not changed. Rather, the Shogi world has evolved and become more attractive through coexistence with AI. Such co-creation by humans and AI is possible in all industries and will expand future possibilities.

AIX Co-creation by humans and AI

We HEROZ believe that humans and AI work together to create new value, transform industries with the power of AIX (AI Transformation), and surprise the world. We believe that this is "AI Revolution" that HEROZ is aiming for. As a company at the forefront of the use of Generative AI, we will build this future together with you. We believe in the unlimited possibilities of AI and will continue to take on challenges for a better future.

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.



- Total 8 mil users
- 500 thousands MAU
- Played a total of over 900 mil games

From “Competition” to “Co-Creation”

The Age of Humans vs.AI

Growing pessimism that shogi is over



In 2017, PONANZA won against then Meijin Amahiko Sato

The Age of Human with AI

Human intelligence evolves with AI



Professionals are now studying Shogi through AI

(we also launched Kishin Analytics)

Evolution of the Shogi world

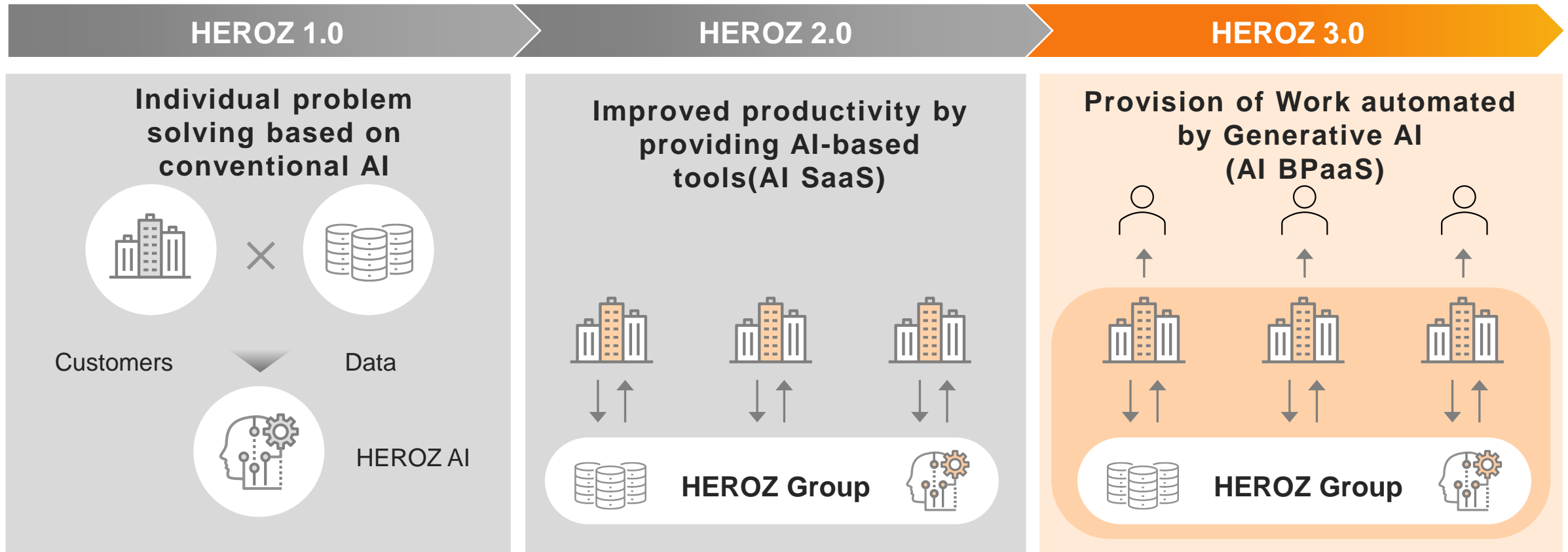
A new era has arrived in which practicing with AI is the norm.



Sota Fujii, the 8th crown, is the poster child of AI.

.In the age of overturning the conventional wisdom through research using AI

- Launch of HEROZ ASK and business integration with group companies led to growth in AI SaaS and recurring revenues.
- Through the remarkable progress of Generative AI, promoting value provision that goes beyond mere AI tools

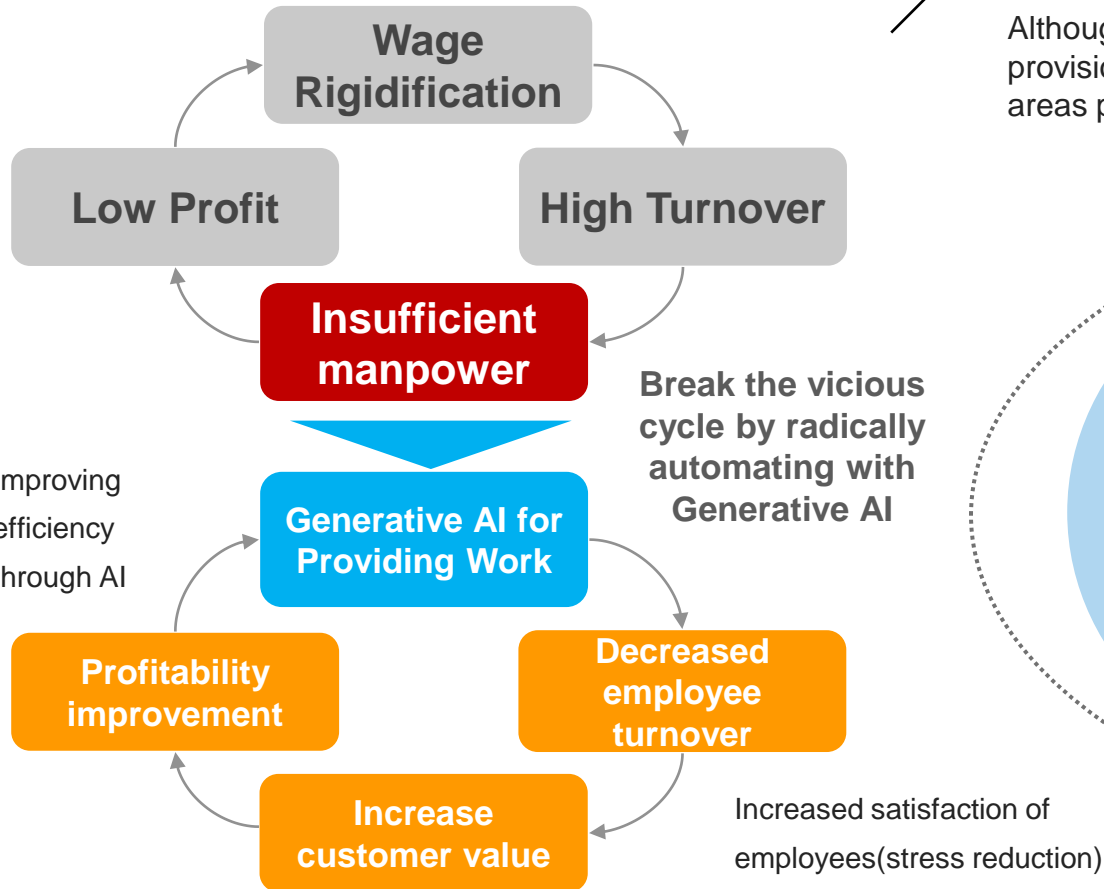


Advances in Generative AI will greatly expand the areas of that can be automated, thus promoting value provision that goes beyond mere AI tools and accelerating the AI Transformation of society

Strategies to achieve through “Sell Work, not AI” (AI BPaaS)

By providing reasonable and higher quality labor sustainably with our AI, we will fundamentally solve the vicious cycle caused by labor shortages and create changes in the target markets that our group companies enter.

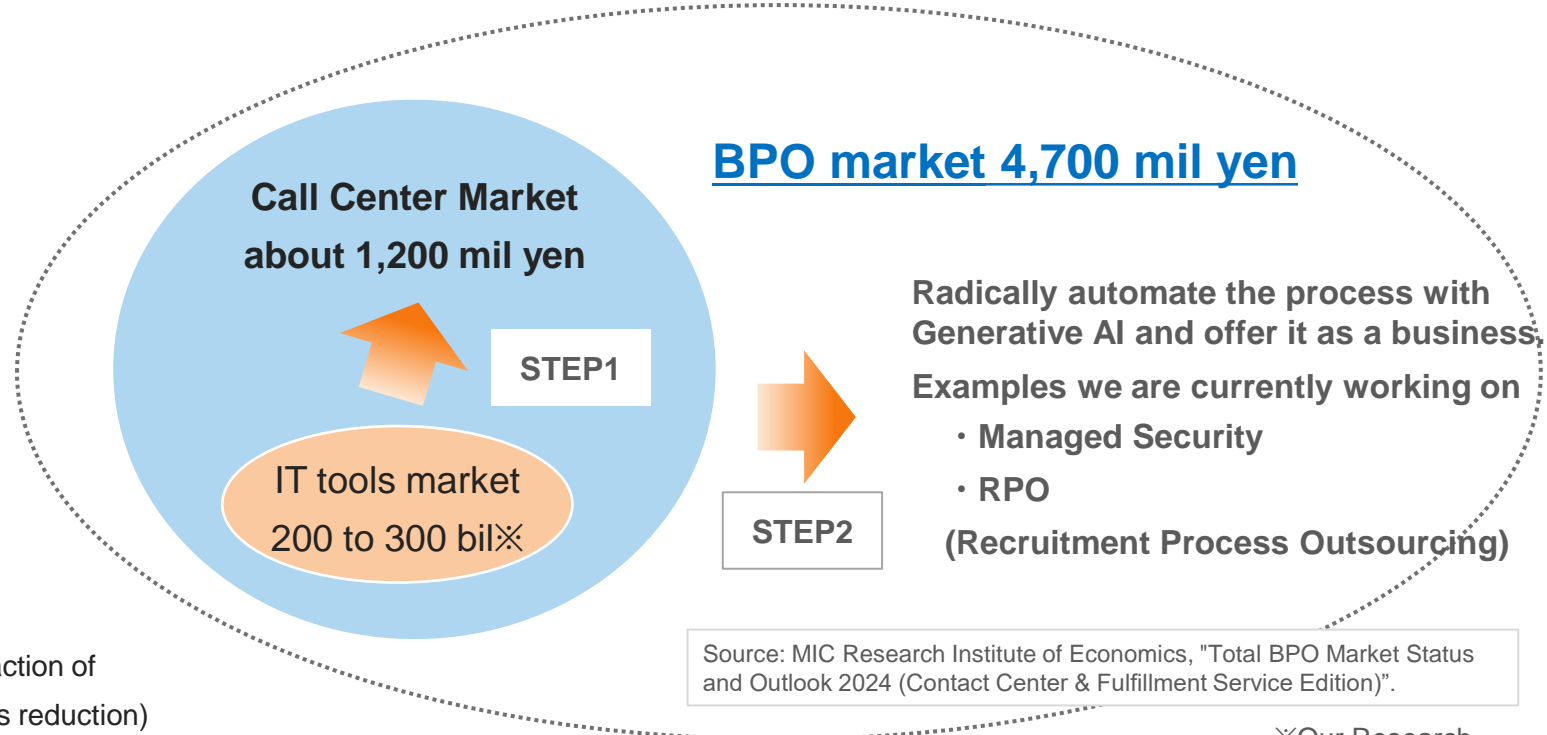
Challenges facing the BPO industry



offer value to customers at a reasonable price

Potential markets that can be approached by the HEROZ Group (TAM)

Although we have traditionally focused on the provision of AI (IT) tools, we will go beyond mere tool provision, and will create fundamental business reforms using Generated AI, and provide work for areas previously handled by people (we will develop this business as one established business).



Officially releasing HEROZ ASK, an enterprise AI assistant SaaS using generative AI, in May 2024.

Further enhancements will be made to promote AIX as the core SaaS for "Sell Work, not AI" by providing value that goes beyond the mere IT tools.

About HEROZ ASK

- AI Assistant to Lead Your Operations
- HEROZ ASK assists you in all your business operations by searching, summarizing, and translating various data that exist in your company, as well as by translating your voice into languages.
- Q&A system is realized based on your company's document information.
- HEROZ ASK will lead your daily work so that you can create new time and work creatively

HEROZ ASK will lead your business in a variety of applications, including

- document summarization
- composition and writing correction
- group management
- dialogue
- searching
- internal document and data utilization

あなたの業務をリードする AI アシスタント

HEROZ ASK

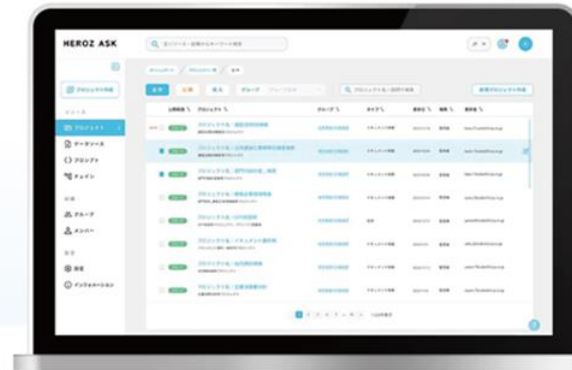
ChatGPTなどの生成AIを活用したHEROZ ASKは、社内に存在する様々なデータの検索・要約・翻訳や、音声の言語化を通じて、あらゆる業務をアシストします。自社文書情報を基にQ&Aシステムを実現します。新たな時間を創出し、創造的な仕事に取り組むため、皆様の日々の業務をHEROZ ASKがリードします。

お手頃価格 (月額900円~/ユーザー) で
高いコストパフォーマンスを実現

部署・チームごとの
グループ活用を可能に

徹底したセキュリティ対策で
安心安全な生成AI活用環境を構築

※価格は利用開始にあたり必要となる最低利用料となります。条件に応じて別途御見積させていただきます場合がございます。



HEROZ ASK でできること



文章要約



作文 & 文章添削



グループ管理



ラベリング



監査ログ



ダッシュボード



対話



検索



ファイルアップロード対応
※PDF、テキスト、音声データ等



社内文書・データ活用



回答精度向上設定



音声認識



プロンプト
テンプレート設定



シングルサインオン (SSO)



IP アドレス制限



API サービス



SaaS 連携



マルチモーダル対応

対応予定

- As an AI business, developed "AI Sakura-san" series as DX solutions that can be utilized in various issues faced by customers.
- "AI Sakura-san" is actively working in outdoor facilities, corporate chatbots, mental health care, etc.

【 Development of diverse AI Sakura-san series 】

- In addition to its activity as an avatar in outdoor facilities, many AI Sakura-san series have been developed to improve internal operations of companies, etc.
- She is working in line with diverse needs, such as handling internal inquiries and phone calls, monitoring employee mental health, etc., mainly for major companies and government agencies.

AIさくらさんシリーズ

Offering a total of 12 Sakura-san series

Some of our services are listed below

 **アバター接客さくらさん**
2016年から運用
国内導入実績No.1のアバター接客



詳細はこちら >

Avatar Customer Service
Sakura-san

 **AI電話対応さくらさん**
様々な電話対応業務を
AIが代行



詳細はこちら >

AI Phone Support
Sakura-san

 **落とし物管理さくらさん**
AIが人に代わって
落とし物問い合わせに対応



詳細はこちら >

Lost and Found Help
Sakura-san

【 Social Implementation of AI 】

- AI Sakura-san is actively working in various facilities such as train stations and airports, as well as municipalities and commercial facilities.
- The importance of AI Sakura-san is growing due to its ability to be customized to meet specific needs, such as multilingual and courteous guidance and lost and found, and she will be working in many more facilities and regions in the future.

Introduction results(partial)



JR East Japan



Yokohama Sotetsu
JOINUS



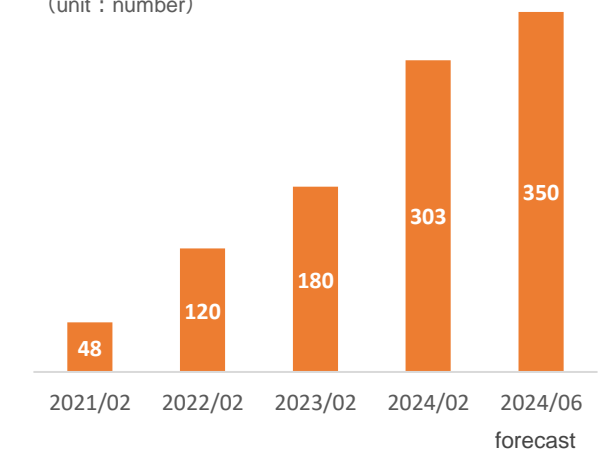
Supreme Court



Haneda Airport Garden

AI Sakura-san Cumulative number of units installed (based on contracts signed)

(unit : number)



Selected as No. 1 in the "BOXIL SaaS AWARD Summer 2024"

AI Sakura-san won "Good Service" and three other No.1 awards in the chatbot category in the "BOXIL SaaS AWARD Summer 2024"

- She won "Good Service," "No. 1 in Service Stability," "No. 1 in Functional Satisfaction," and "No. 1 in Ease of Use" in the chatbot category of the "BOXIL SaaS AWARD Summer 2024" organized by Smart Camp, Inc.(hereinafter referred to as "Smart Camp")
- The "BOXIL SaaS AWARD" is an event in which Smart Camp, which operates the SaaS comparison site "BOXIL SaaS," judges, selects, and awards outstanding SaaS.
- For more information about the "BOXIL SaaS AWARD Summer 2024" and the selection criteria, please visit the official website below:
<https://boxil.jp/awards/2024-summer/>
(Japanese Only)



StrategIT officially launched "JOINT iPaaS for SaaS"

- StrategIT launches iPaaS platform "JOINT" for SaaS vendors as a new business axis.
- Shift to a stock-type revenue model while continuing conventional businesses such as SaaS integration development, API development support, and SaaS implementation support.

【JOINT iPaaS for SaaS】

- A platform that enables efficient and easy handling of development, management, and operation of integration between the customer's products and other SaaS products
- Developed iPaaS based on their track record of implementing integration with more than 50 major SaaS in Japan and abroad



Standard features of JOINT iPaaS for SaaS

- ① Building and incorporating App Stores
- ② No-code collaborative apps development
- ③ Semi-automated data mapping with AI

Point 1



アプリストア構築
or
自社プロダクトへ組み込み

ヘルプページの作成や連携アプリ・ユーザーの管理だけでなくアプリストアでは、支払管理機能を提供します。

Point 2



ノーコードで簡単に連携アプリの開発ができる

JOINTは1つの連携アプリで相互連携の実装を最短1週間で実現できます。

Point 3

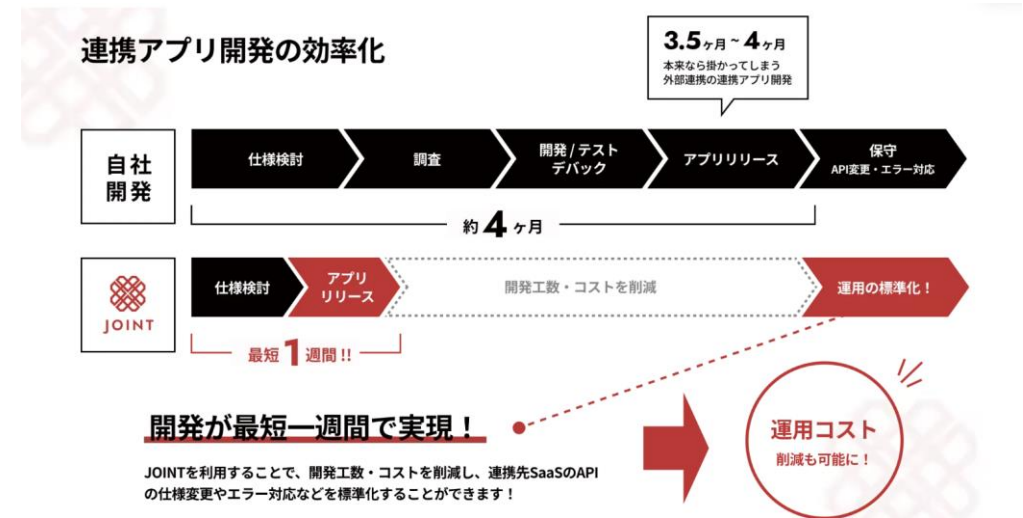


AI機能でデータマッピングが半自動化できる

データ連携時に時間がかかるマッピング作業をAIが半自動化で提案します。

【What can be achieved with JOINT】

- By integrating JOINT into the customer's product,
 - Build collaborative apps
 - Build app stores
 - Standardization of post-application management can be achieved easily
- Reduce implementation time for external LLM integration such as ChatGPT Development of linked applications, which normally takes 3.5~4 months, can be implemented in as little as one week.

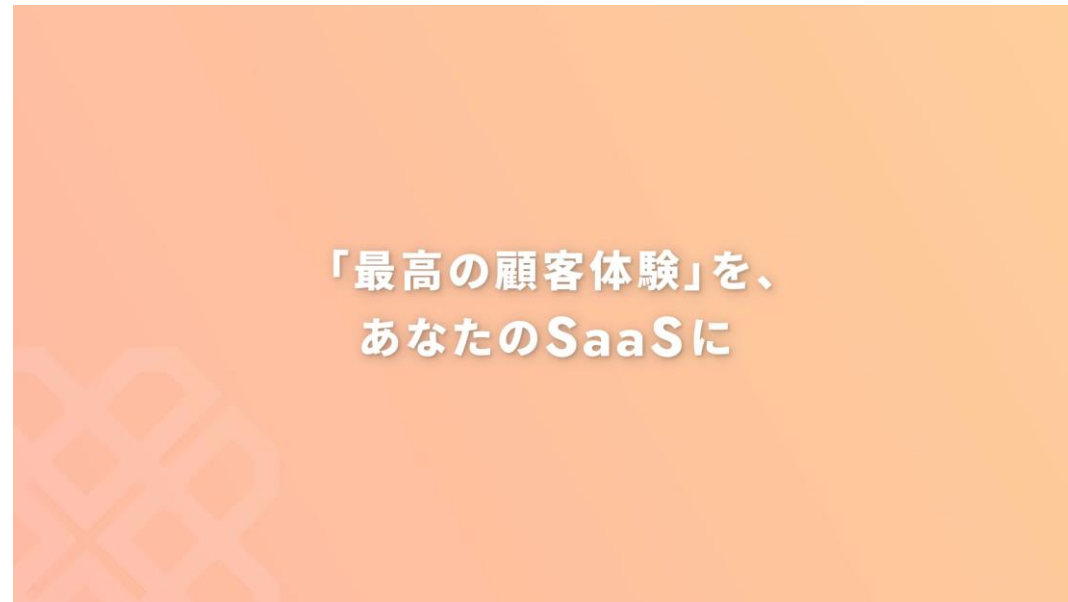


Click below to watch the introductory video(Japanese Only)

HEROZ QSK : https://youtu.be/ug8iX5_mhKg?si=ZN5CMIjwtf2uDxs

 **JOINT** : <https://youtu.be/Qnk6KDavah4?si=o6c9YF1D9S1RUgoD>

HEROZ QSK



04

FY04/2024 Full-Year Performance (Consolidated)

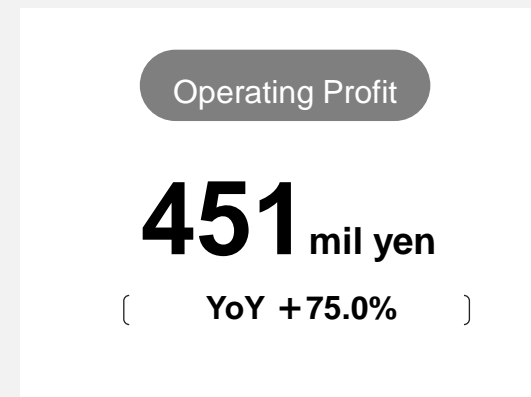
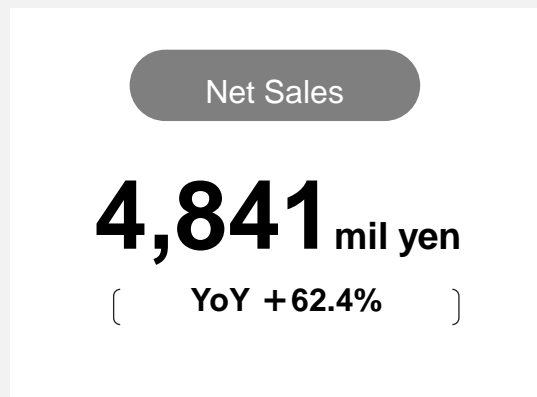
Performance Summary (May 2023-April 2024)

Consolidated financial statements are disclosed from the third quarter of the fiscal year ending April 30, 2023.

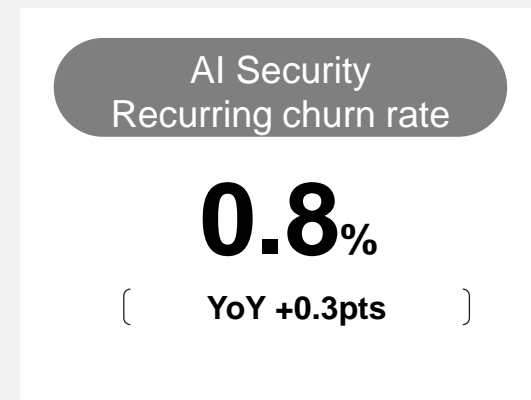
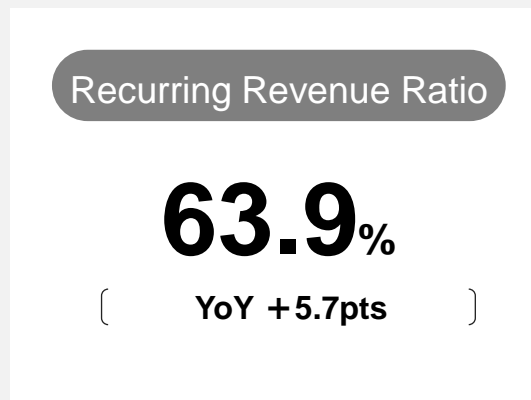
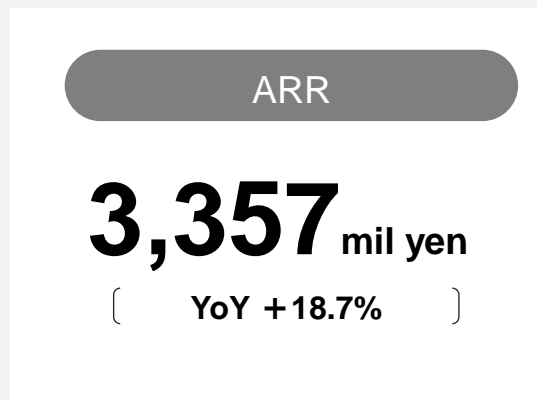
Therefore, please note that comparisons with the previous period are based on figures that incorporate only 6 months of income statements of group companies.

HEROZ

HEROZ Group Consolidated (FY04/2024)



AI SaaS KPI



* Recurring Revenue is the sum of HEROZ's BtoB recurring sales and BtoC subscription sales, VarioSecure's managed security services sales, and StrategIT's subscription sales and maintenance sales, and AI2's products "Quick" series sales

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

Performance Overview (May 2023-April 2024)

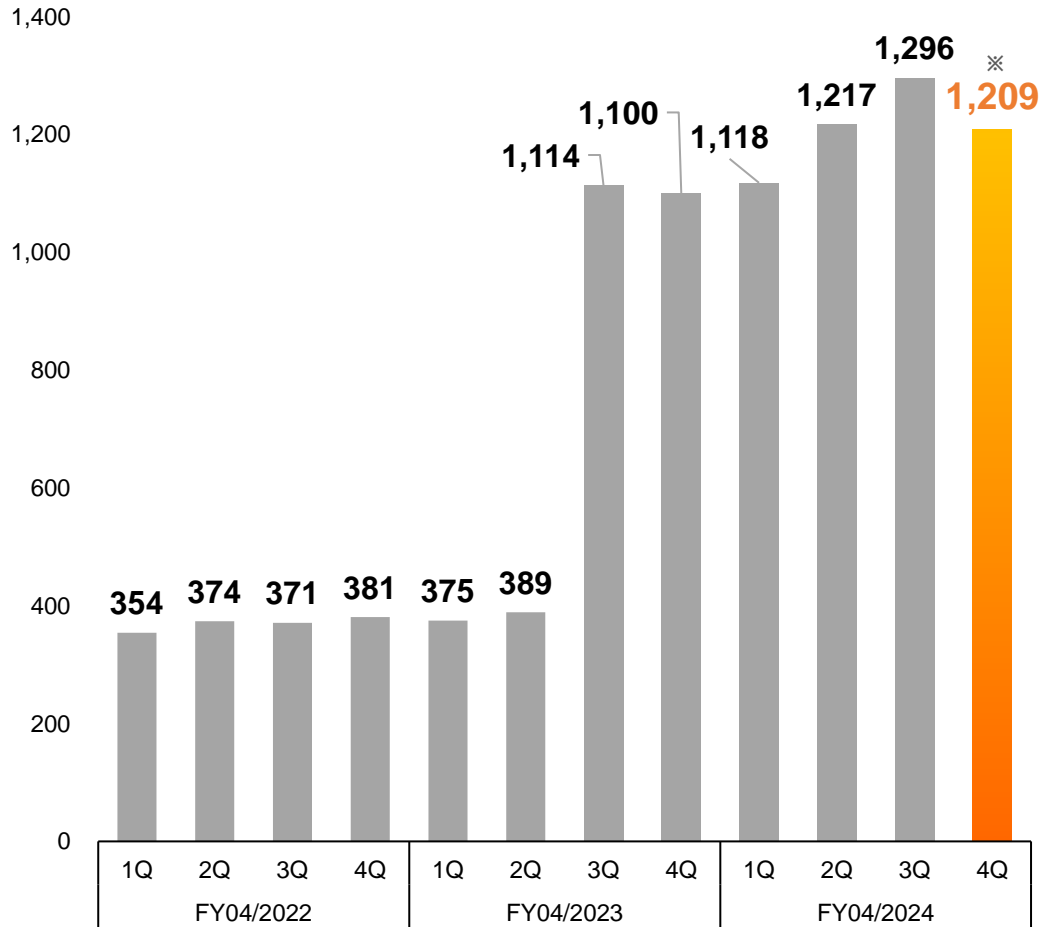
- Net sales continued to grow significantly in the organic BtoB and BtoC businesses as the sales structure was strengthened and "Kishin Learning" performed Strong.
- AI2, which was acquired through M&A in November 2023, is included only for 5 months in the current term.

(Units: JPY millions)	FY04/2023 Results (Consolidated)	FY04/2024 Actual (Consolidated)	YoY	Initial Forecast (Announced on March 8, 2024)	Progress against Initial Forecast
Net sales	2,980	4,841	+62.4%	4,850	99.8%
EBITDA	609	901	+47.8%	920	98.0%
Operating Profit	257	451	+75.0%	450	100.3%
Ordinary Profit	216	368	+70.6%	410	90.0%
Net Income (loss) attributable to owners of the parent	-574	-1,134	—	-930	—

Key Performance KPIs (by Quarter)

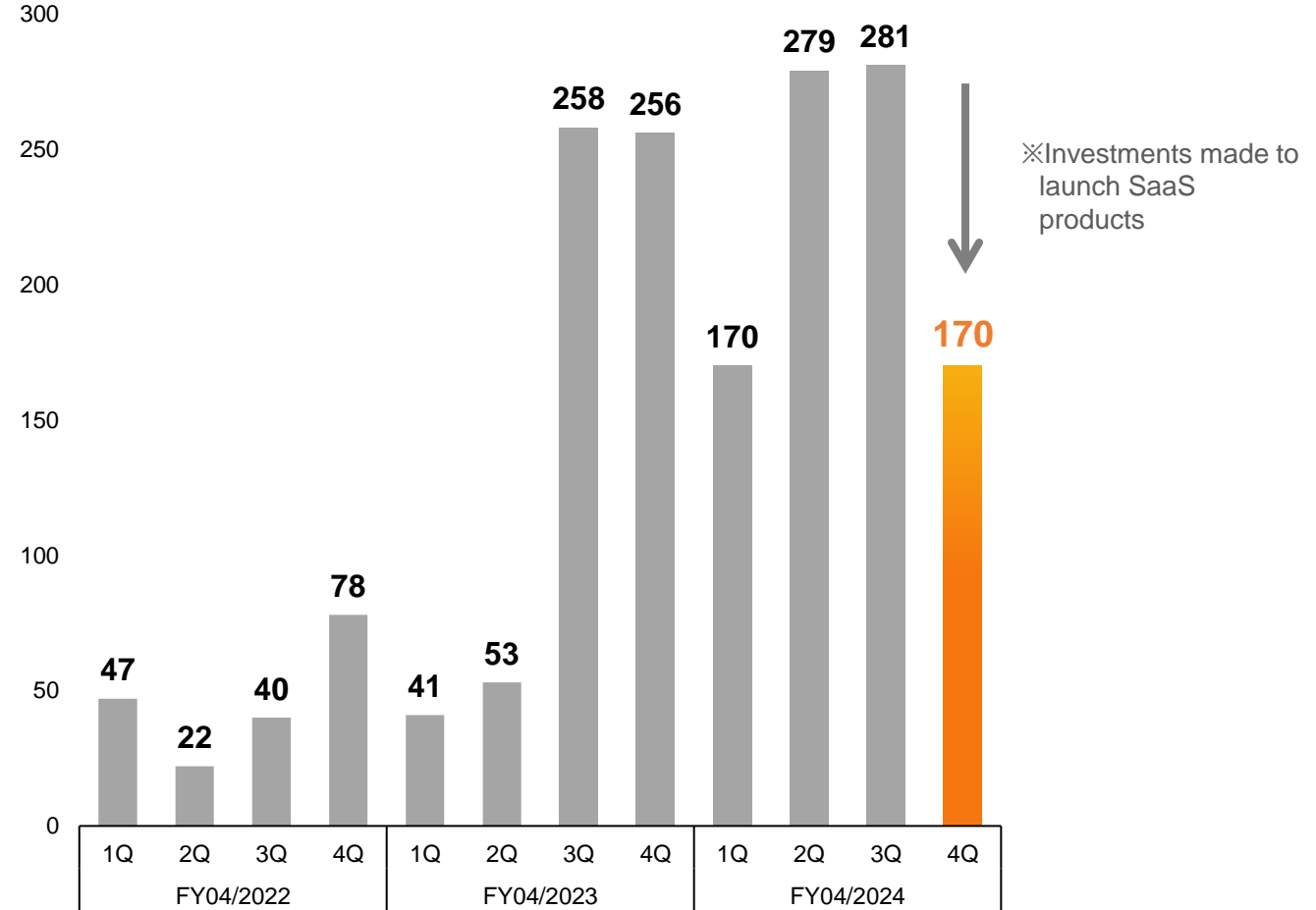
Net Sales

(Units: JPY Millions)



EBITDA

(Units: JPY Millions)

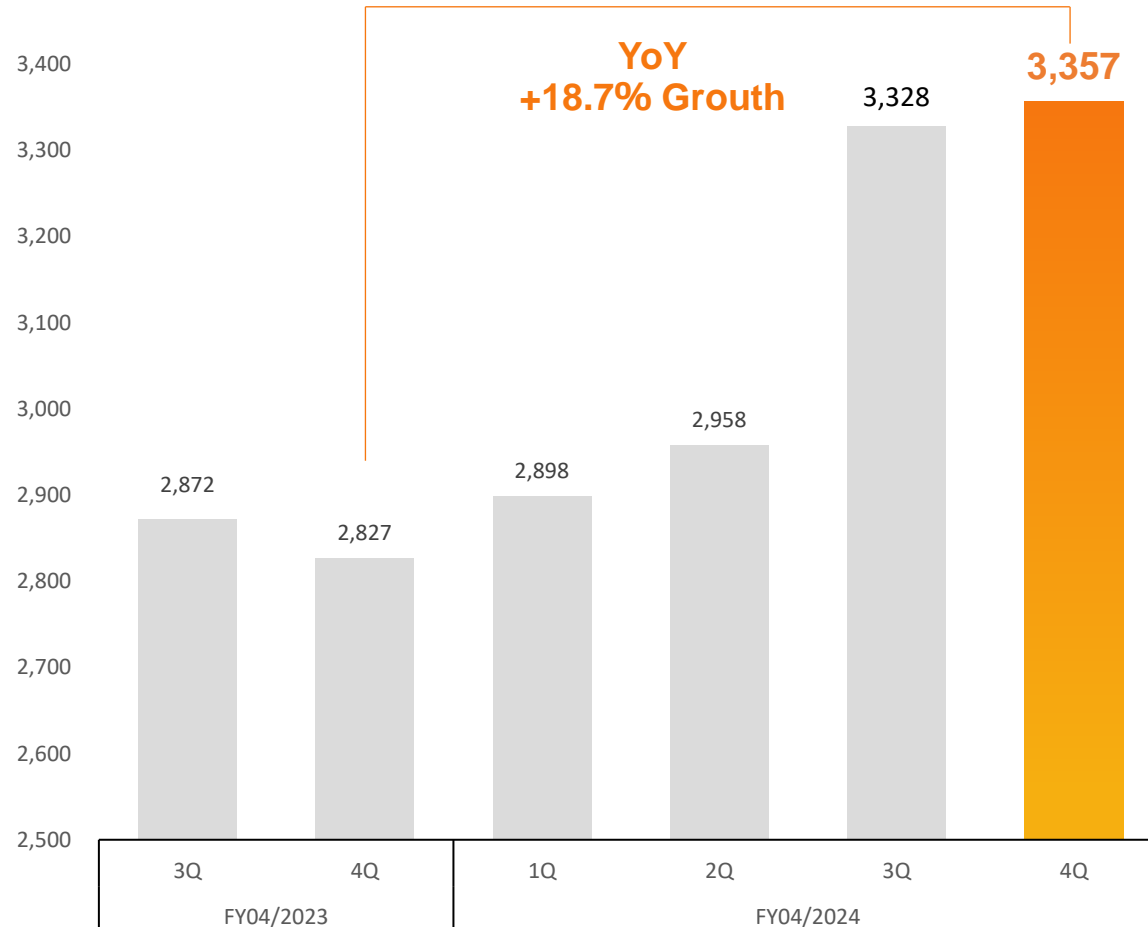


※Effects of changes in accounting standards and the fact that AI2's intake was for two months (approx. 50 million yen), etc., and the timing of sales booking delays, despite an increase in BtoB orders.

Group-wide ARR of approximately 3.35 billion yen and continued growth

ARR (By Quarter)

(Units: JPY Millions)



ARR continues to grow

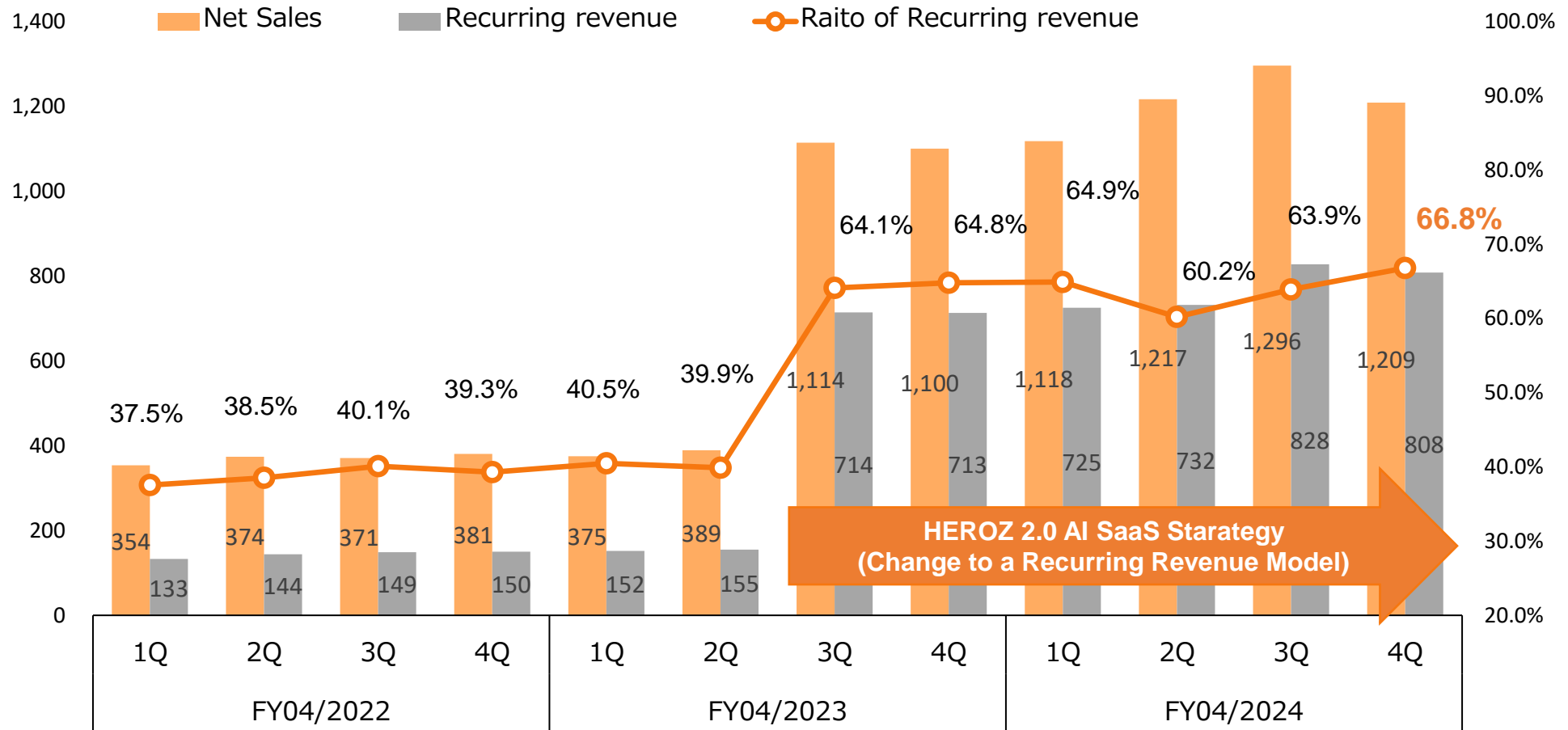
YoY Growth Rate **+18.7%**
ARR amounts **3,357** mil JPY

- Recurring revenue includes subscription sales in the BtoC and BtoB segments of the AI/DX business, ongoing sales in the BtoB segment, ongoing sales from AI Square, and sales from management security services in the AI Security business. (AI Sakura-san's revenue will be added from the fiscal year ending April 2025)
- 4Q growth compared to 3Q due to increase in ongoing fees from HEROZ BtoB business and VarioSecure's management security services

Recurring revenue shows a continuous increasing trend.

- In May 2024, "HEROZ ASK" and "JOINT" were officially released.
- Expect full-scale increase in recurring-type sales from this fiscal year onward..

(Units: JPY millions)

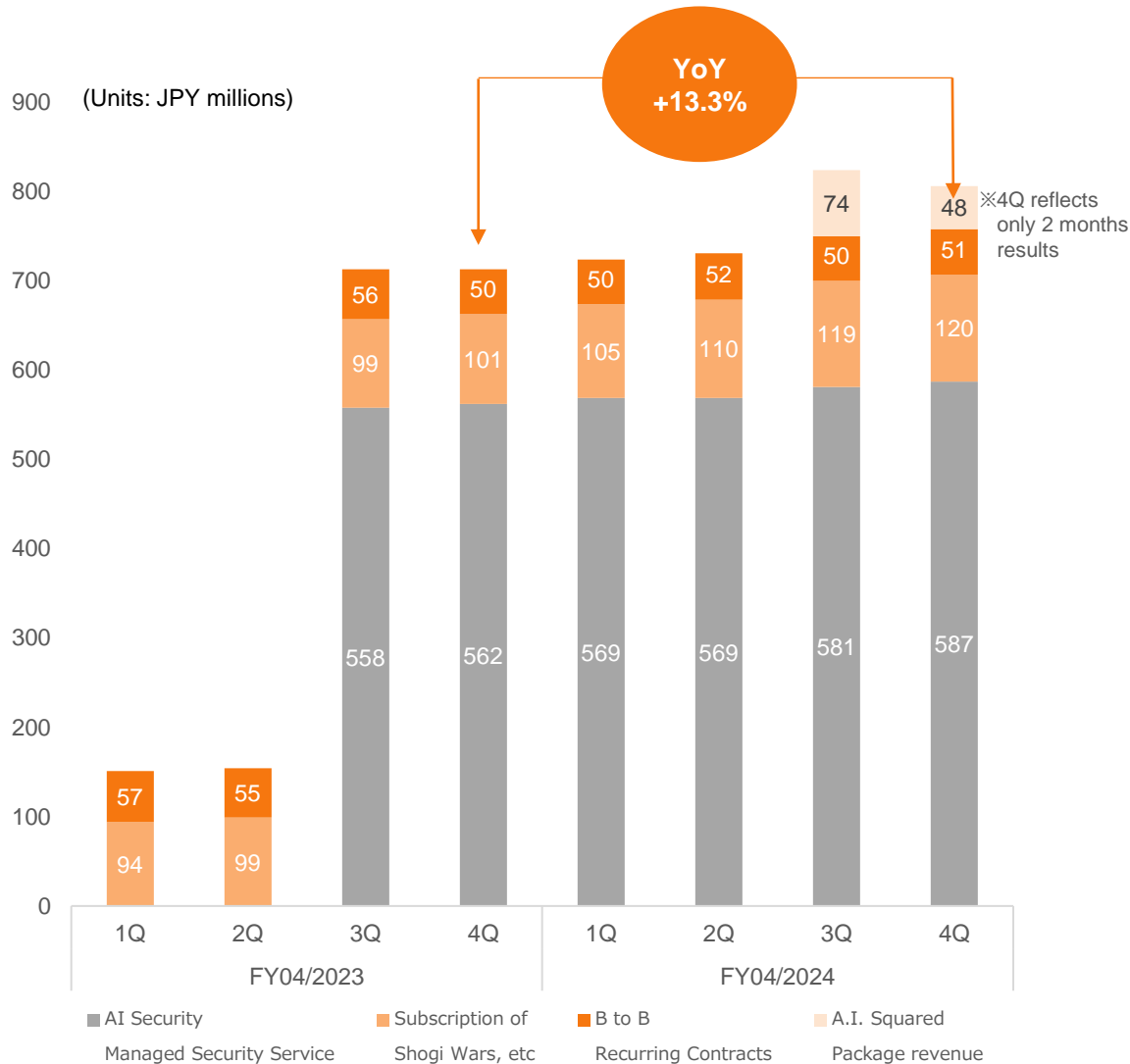


**HEROZ 2.0 AI SaaS Strategy
(Change to a Recurring Revenue Model)**

※ Recurring sales ratio in this slide is calculated and disclosed on a quarterly basis.

Recurring revenues are expected to continue to increase with product launches

Recurring revenue breakdown (by quarter)



Details of revenues

AI Squared package revenue.

AI Squared recorded package sales for contact centers

BtoB Recurring Contracts

HEROZ's BtoB and StrategIT, Inc. recorded ongoing maintenance and operation sales.

Subscription of Shogi Wars, etc

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

AI Security Managed Security Service

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

Future Outlook

Expanding sales for call centers.

By coordinating the sales structure within the group, we are accelerating our approach to new customers.

Launch several new SaaS products

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

Establishing the Shogi Wars Economic Zone

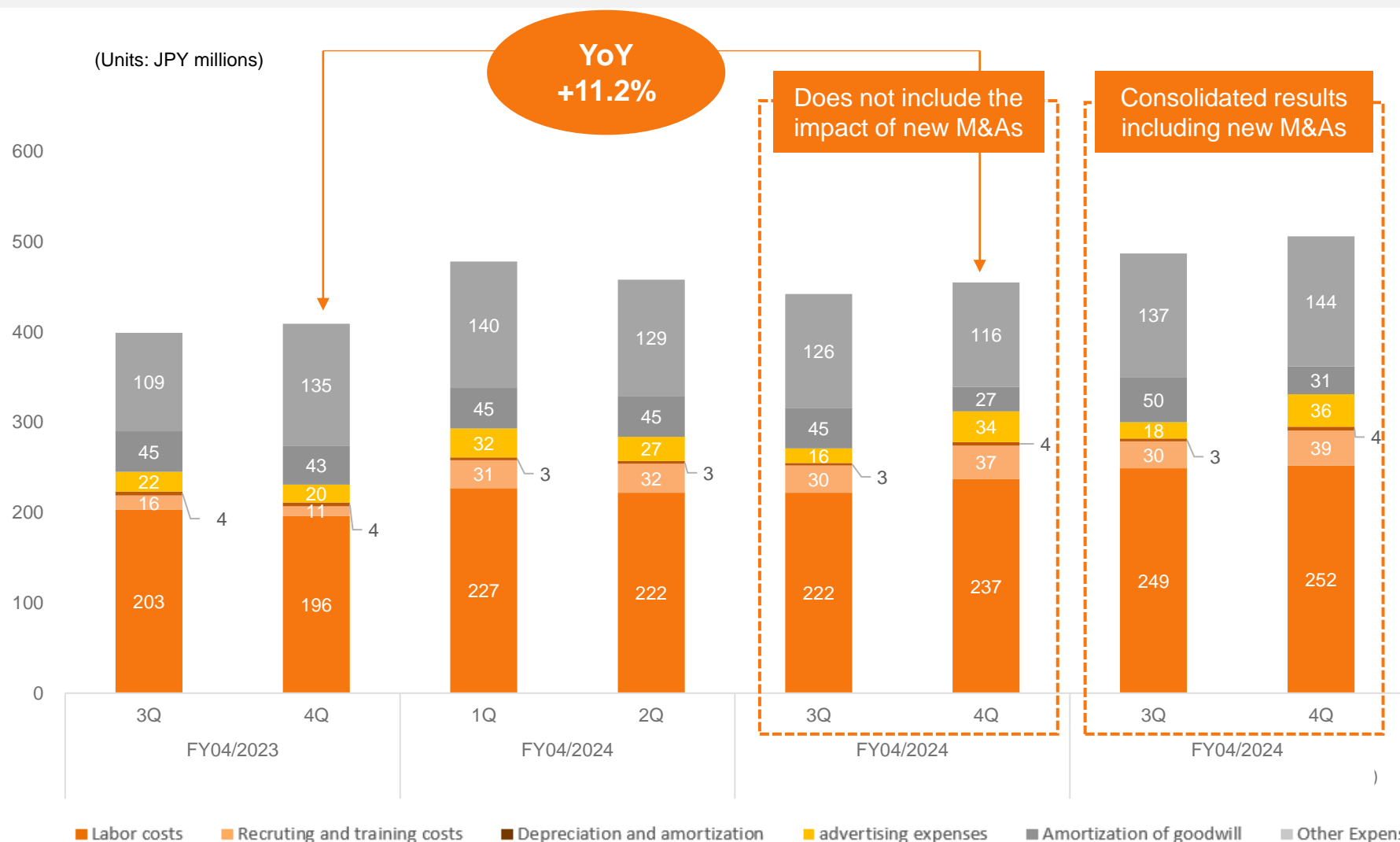
Released new Shogi-related content such as "Kishin Analytics" and "Kishin Learning," and expect further growth.

Entering the growing security industry

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

Breakdown of SG&A expenses (Consolidated)

- Policy to control SG&A expenses through cost control.
- The increase is due to investments in sales personnel and marketing related investments for the next fiscal year, including the launch of SaaS. Overall, the company will continue to strive for appropriate cost control

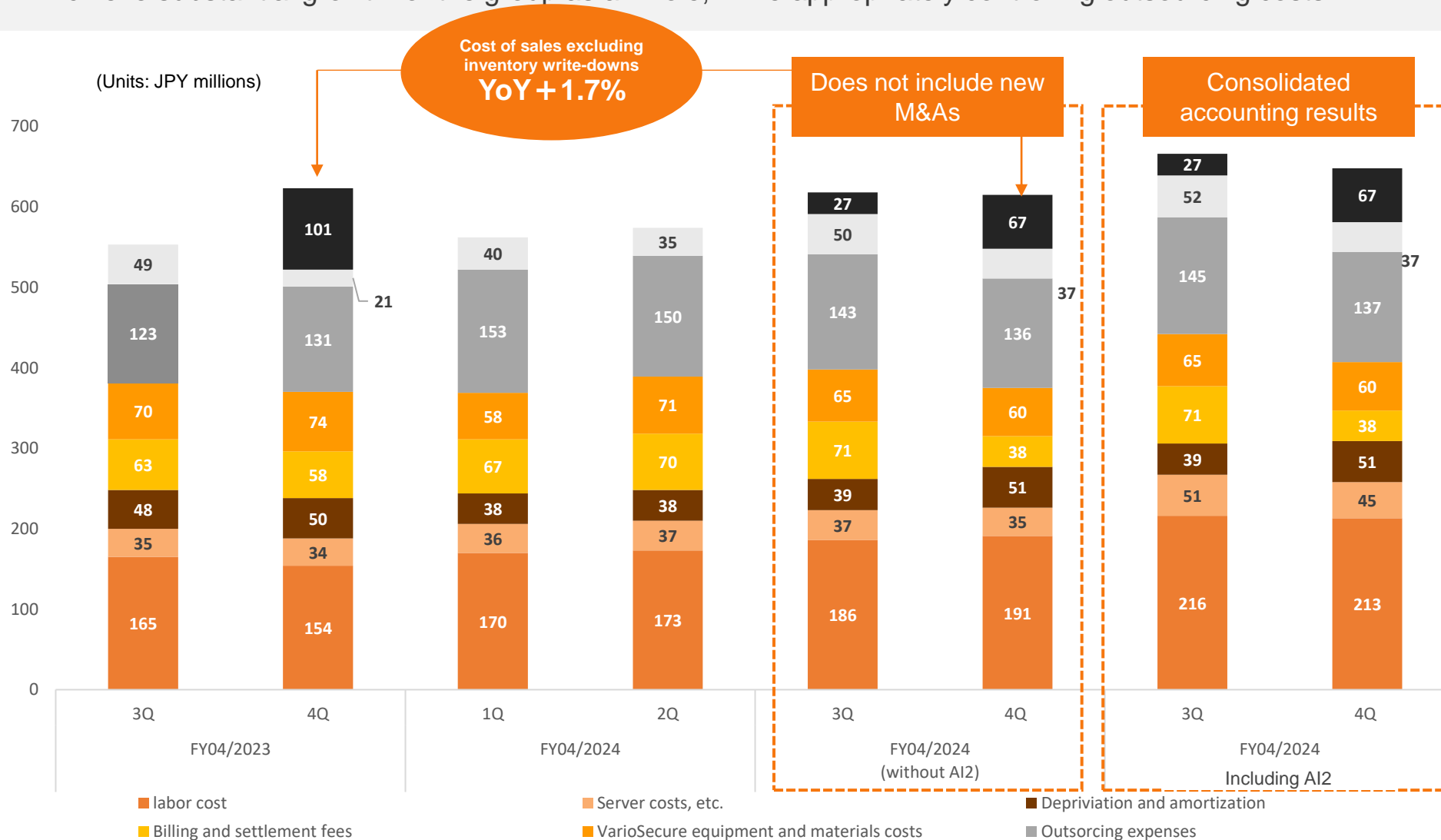


Aggressive investment in human resources, etc.

- Total personnel expenses increased from last year due to the introduction of a stock compensation plan.
- Aggressive hiring of sales and marketing personnel for the launch of HEROZ ASK's business. On the other hand, the number of personnel involved in corporate functions itself increased slightly.
- Recruitment costs are reduced through the use of direct recruiting to achieve both recruitment and cost reduction.
- Aiming to expand SaaS products, investments related to advertising and marketing are also being made.

Cost of Sales Breakdown (Consolidated)

- Aggressive hiring continues, mainly in engineering and business positions, for sales growth, and personnel expenses are steadily increasing at +24.0% YoY.
- Achieve substantial growth for the group as a whole, while appropriately controlling outsourcing costs.



Continued planned investments

- aggressive investment in human resources to achieve earnings growth and a policy of increasing labor costs in the cost of sales for the entire group
- On the other hand, outsourcing costs (subcontracting costs) are stable and appropriately controlled.
- VarioSecure recorded a one-time charge for the write-down of inventories.

Performance by Segments (May 2023-April 2024)

- AI/DX business continued to increase revenue through M&A and organic growth. EBITDA margin was also high at 37.4%.
- AI Security business similarly maintained high profitability with an EBITDA margin of 41.3%

		FY04/2023 Full-Year Results (Consolidated)	FY04/2024 Full-Year Actual (Consolidated)	YoY (Consolidated)	YoY (Performance of HEROZ on a standalone basis)
(Units: JPY millions)					
AI/DX services	Net Sales	1,683	2,212	+31.4%	+11.1%
	Segment Profit	494	677	+36.8%	+42.4%
	EBITDA	655	826	+26.0%	+15.9%
	EBITDA Margin	39.0%	37.4%	-1.6pt	-
AI Security Services ※	Net Sales	1,297	2,640	+103.6%	-
	Segment Profit	380	789	+107.4%	-
	EBITDA	571	1,089	+90.7%	-
	EBITDA Margin	44.0%	41.3%	-2.8pt	-
Segment Profit adjustment	Segment Profit	-617	-1,014	-	-

※ Disclose segment information from 3Q FY4/2023.

AI/DX business FY4/2023 cumulative total reflects the sum of HEROZ's full-year cumulative total and StrategIT's 3-4Q figures; AI Security business FY4/2023 cumulative total reflects VarioSecure's 3-4Q figures only. The segment income adjustment of -1,014 million yen represents corporate expenses that are not allocated to each segment.

- This segment includes BtoC centered on Shogi Wars, BtoB for providing AI solutions to customers, SaaS implementation and SaaS-linked development business developed by StrategIT, and services in the contact center area developed by AI2.
- From the fiscal year ending April 2025, incorporate sales and profits of Tifana.com, which provides "AI Sakura-san".

(Units: JPY millions)

	FY04/2024 Actual	
Net Sales	2,212	Recurring Revenue Ratio 35.5%
Operating Profit	677	Operating Margin 30.6%
EBITDA	826	EBITDA Margin 37.4%

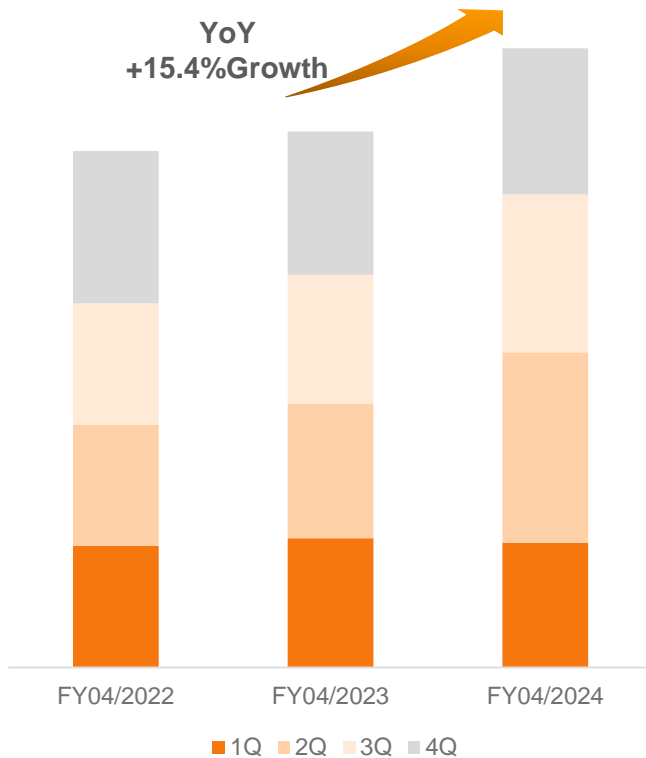
Both BtoC and BtoB sales increased significantly YoY

- Shogi Wars-related sales increased steadily due to the stable increase in the number of Shogi Wars users and the effect of acquiring users through the launch of the Kishin Learning service, etc. With the recent Shogi boom as a tailwind, we will continue to approach a wide range of users with the aim of maximizing the number of Shogi players.
- HEROZ's BtoB business has seen an increase in the number of projects in operation since the second quarter, and this quarter also saw a significant increase in sales YOY. HEROZ ASK" is now available as a paid version, and the company will continue to capture recurring sales.

HEROZ's BtoB business achieved sales growth of slightly about 20% YOY

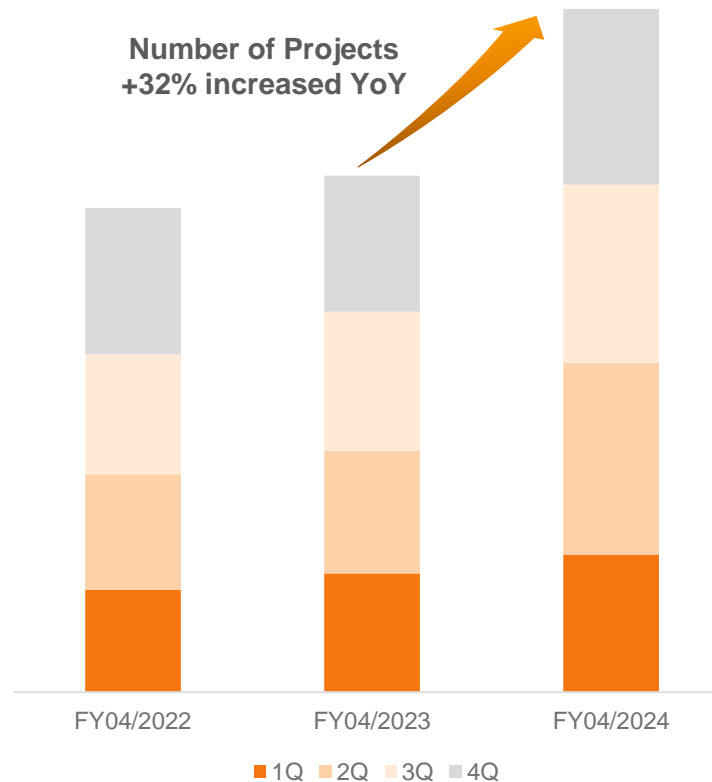
HEROZ BtoB Business Sales Trends

- Although project orders were favorable, 4Q results fell short of expectations due to a delay in the start of projects.
- Backlog of orders is higher than last year, so continued growth is possible in FY4/2025.
- Full-year growth of 15.4% YOY is expected.



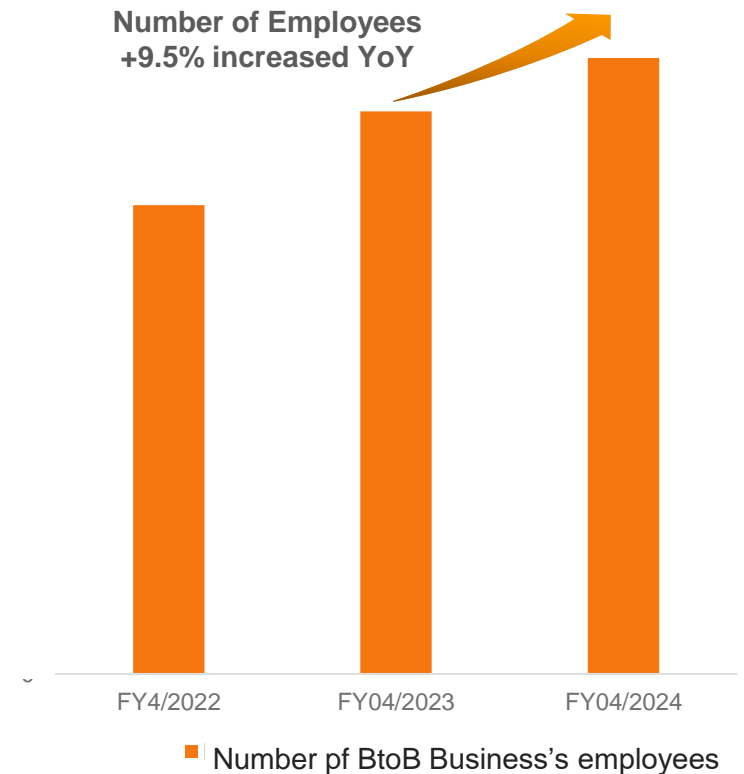
BtoB Business Number of Active Projects

- Net sales grew not due to specific high-unit-price projects, but rather to an overall increase in the number of projects due to growing client base.



BtoB Quarterly headcount

- BtoB business model is based on engineer man-months x utilization ratio.
- Despite the impact of personnel transfers to LLM development, headcounts increased steadily.
- The utilization ratio rose by an average of 22% from the previous fiscal year.



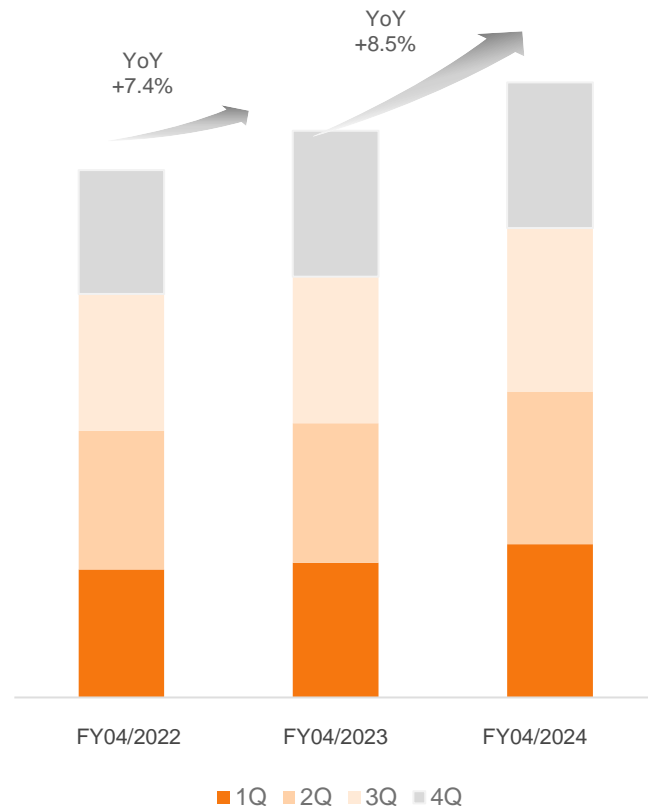
AI/DX Segment

BtoC Business continued to increased Net sales

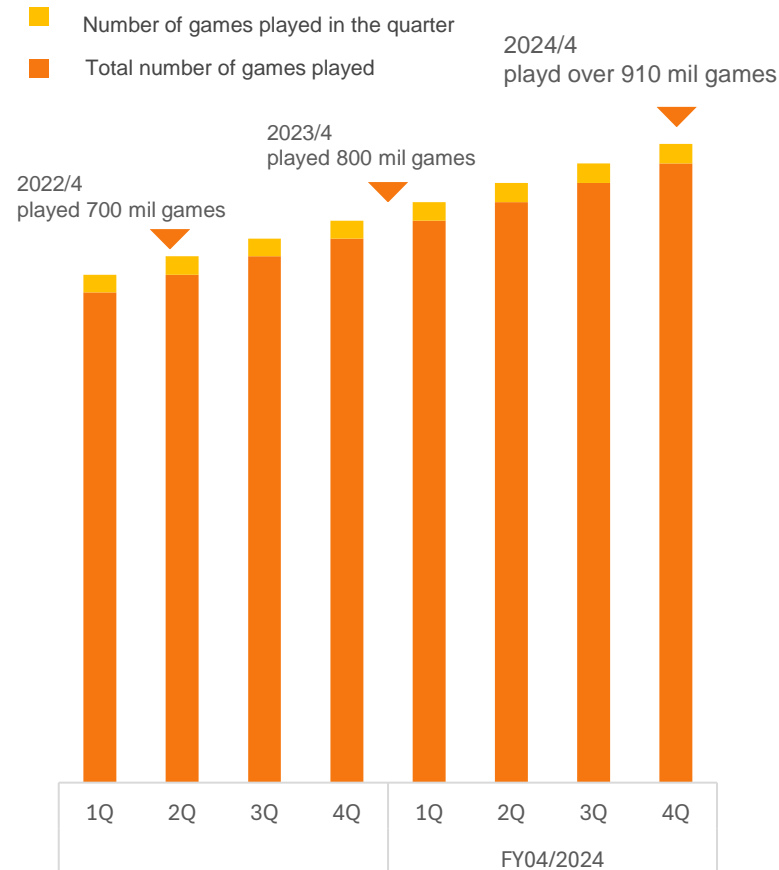
BtoC business grew steadily due to the effects of increased attention to Shogi following Sota Fujii's first ever 8-kan championship, collaboration with the popular Shogi manga "Ban'ou", and the release of "Kishin Learning", an e-learning service to help players achieve Shodan (first dan) in Shogi.

HEROZ B to C Business Sales Trends

- With a certain market share as a platform for Shogi games, further growth is expected with Sota Fujii's Eighth Crown achievement



Shogi Wars has played over 900 million games.



Various measures in and outside the game

- In the current fiscal year, various in-game events, such as the collaboration event with the Shogi comic "Ban'ou" and the swinging piece event held during the year-end and New Year holidays, were well received and contributed to sales.
- The number of paying subscribers far exceeded initial expectations due to the popularity among Shogi Wars users of the high quality content of the "Kishin Learning" e-learning tool for achieving Shodan in one year.
- The number of paying subscribers exceeded our initial expectations.

- This segment is developing the business of implementing the HEROZ Group's AI into the security business developed by Vario Secure.
- Recurring sales account for 87.4% of total sales, making it possible to generate stable sales.

(Units: JPY millions)

	FY04/2024 Actual	
Net Sales	2,640	Recurring Revenue Ratio 87.4%
Operating Profit	789	Operating Margin 29.9%
EBITDA	1,089	EBITDA Margin 41.3%

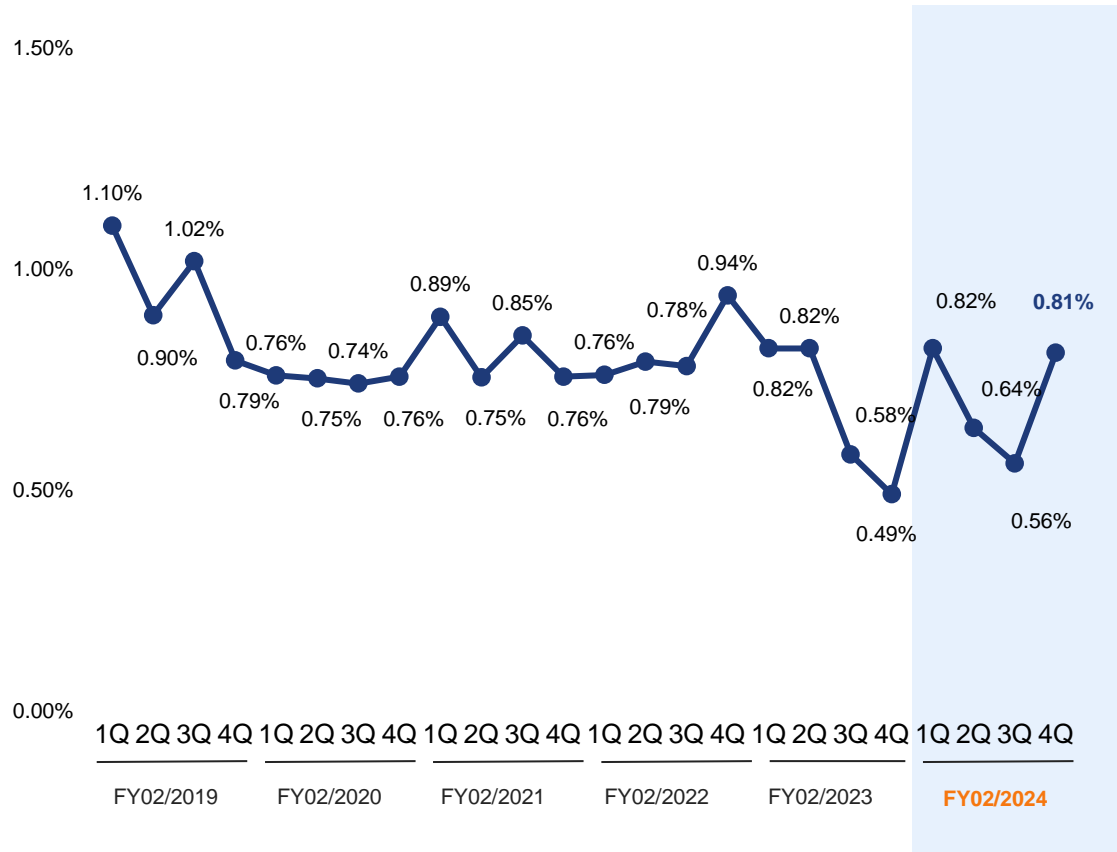
Recurring sales ratio is high at 87.4%.

- Vario Secure's sales grew about 3% YoY, but the breakdown shows that managed security services, the company's focus area, maintained its growth rate, and the ratio of recurring sales rose.
- Operating income is expected to decrease due to growth investments based on the medium-term management policy, mainly in hiring personnel for service planning, engineering, and operation support, as well as in advertising expenses to strengthen marketing.

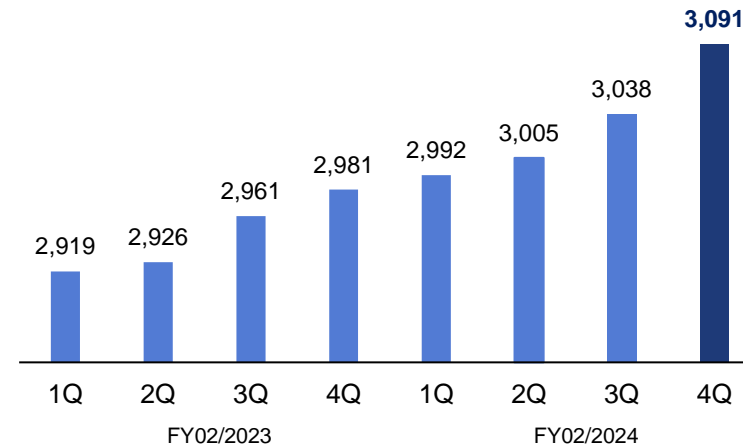
Managed security services steadily increased end-user base with low churn rate

Managed Security Services Churn Rate Trends

Churn rate remains stable at below 1%.

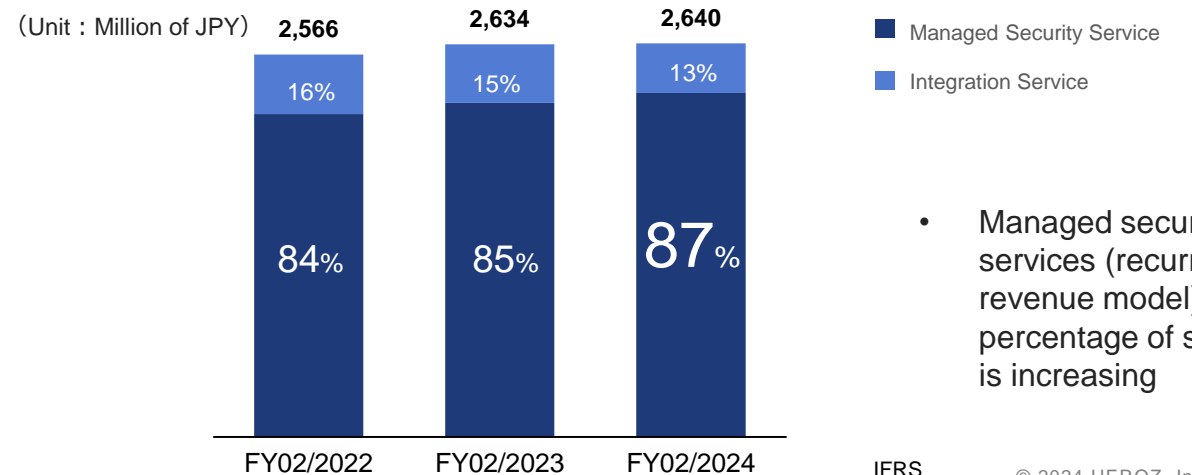


Number of Managed Security Service End Users (at the end of each quarter)



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

Performances (by each services)



- Managed security services (recurring revenue model) as a percentage of sales is increasing

Balance Sheet (as of April 30, 2024)

- 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.
- In intangible assets, there is a goodwill balance of about 1.9 billion yen.

Units: JPY millions	As of 4/30/2023 (Consolidated) (A)	As of 4/30/2024 (Consolidated) (B)	Increase and decrease (B-A)
Current Assets	4,963	3,997	-966
Cash and deposits	3,798	2,738	-1,060
Fixed Assets	3,709	3,693	-15
Property, plant and equipment	237	262	24
Intangible assets	2,640	2,547	-93
Investments and other assets	831	884	53
Total Assets	8,673	7,691	-981
Current Liabilities	994	1,168	173
Fixed Liabilities	1,598	1,380	-218
Net Assets	6,080	5,143	-937

Decrease mainly due to M&A investments

Decrease mainly due to the one-time amortization of a portion of goodwill of VarioSecure and increase due to goodwill arising from the consolidation of four companies.

05

Forecast of FY04/2025 Performance

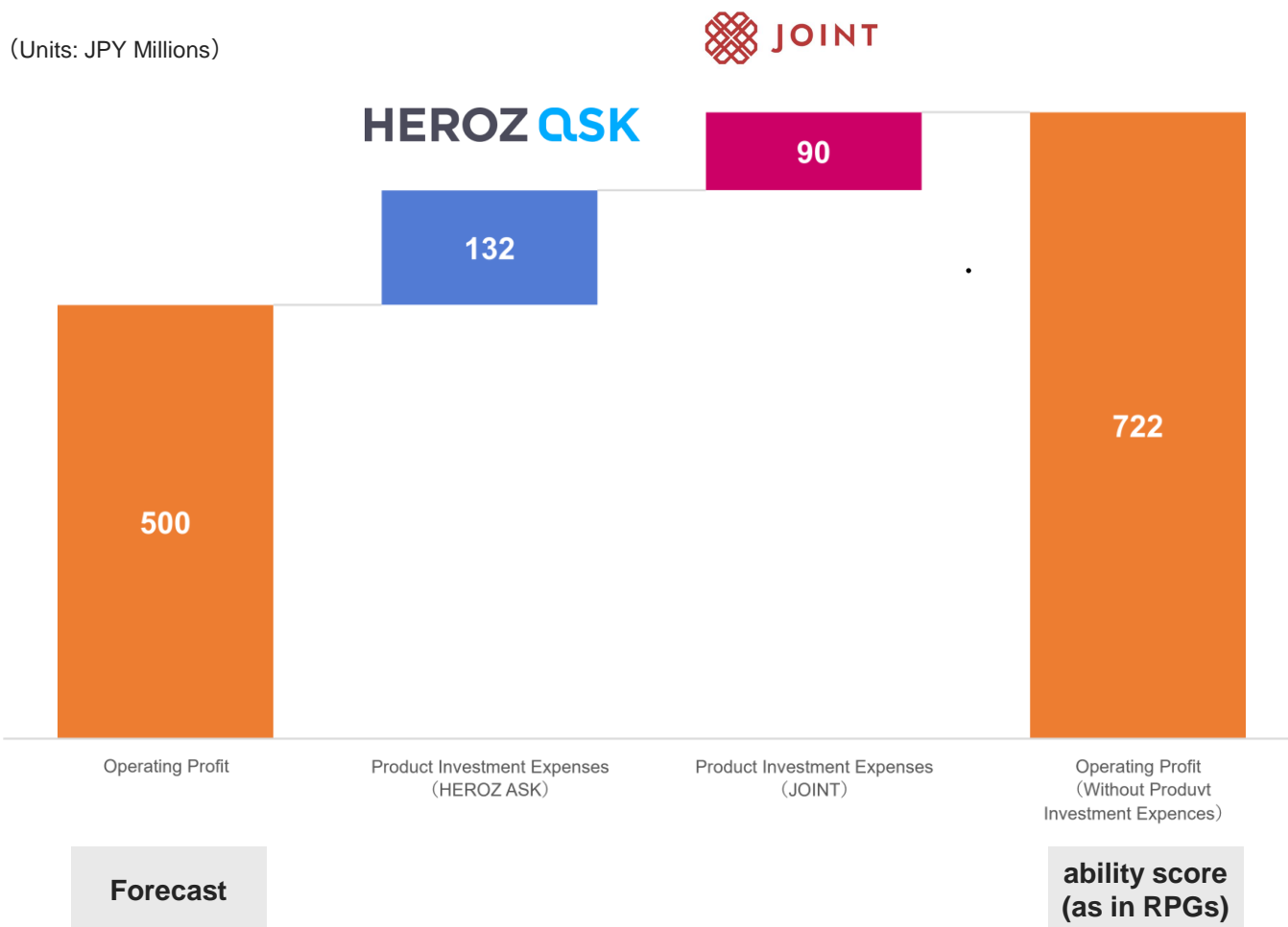
Forecast of FY04/2025 Performance

- Based on continued growth of existing businesses and the contribution of Tifana.com, a new group company, sales for the full year are expected to be 6 billion yen.
- Operating profit is targeted at 500 million yen, given that the SaaS businesses of HEROZ ASK and JOINT are in the start-up phase and we plan to invest in development and marketing costs.

(Units: JPY millions)	FY04/2024 Actual (Consolidated)	FY04/2025 Forecast (Consolidated)	Increase and decrease (B-A)	Increase Ratio (B)/(A)
Net sales	4,841	6,000	1,158	+23.9%
EBITDA	901	1,000	98	+11.0%
Operating Profit	451	500	48	+10.8%
Ordinary Profit	368	450	81	+22.0%
Net Income (loss) attributable to owners of the parent	-1,134	30	1,164	-

Full-year forecast: Actual performance basis (excluding investment in SaaS-related products)

- In FY4/2025, the company plans to increase investment in sales personnel, recruiting, and marketing related to new SaaS products, etc.
- On the other hand, we will continue to strive for appropriate cost control, and each existing business is aiming to increase sales and profits, and we expect operating income of approximately 720 million yen on an actual value basis excluding these new product investments.



- Expected to spend approximately 220 million yen for marketing and personnel costs associated with the launch of "HEROZ ASK" and "JOINT".
- Existing business operating income is expected to be approximately 720 million yen, and is expected to grow by 60% YoY on an actual basis.

● Breakdown of Product Investment Expenses

- Aggregate the following related costs for "ASK" and "JOINT"
 - └ Personnel expenses for sales, customer success, etc.
 - └ Marketing expenses
 - └ New recruitment costs for sales expansion
 - └ Other costs

06

Initiatives in each Business Segment

HEROZ's Mortgage Fraud Detection AI System Begins Operation at Shizugin Credit Guarantee

- HEROZ and Shizugin Credit Guarantee Co., Ltd. to Implement Fraud Detection AI System for Use in Mortgage Loan Screening Operations.
- Practical application of fraud detection AI to begin in April 2024.

Background of Introduction of Mortgage Fraud Detection AI System

- **Improve the accuracy of mortgage loan screening operations and reduce the workload.**

The fraud detection AI system, now in operation at Shizugin Credit Guarantee, immediately detects loan applications that may not be for the purpose of home purchase and prevents fraudulent use. This will improve the accuracy of screening and reduce the workload on screening staff



System Features and Future Development

- This fraud detection AI system visualizes the possibility of fraudulent use of mortgages that are not for home purchase purposes with a score by an AI model that has already learned from past screening data.
- By referring to the score at the time of screening, the screening staff can improve the accuracy of screening by preventing the overlooking of fraudulent use while streamlining the screening process.
- We will continue to contribute to the accelerated development of industry by pursuing AI-based approaches to solving problems in industry.

PJCS 2024 also introduces the "Pokémon Battle Scope"

- "Pokémon Battle Scope" was also used for the live streaming of the "Pokémon Japan Championships 2024" held on June 1 and 2.
- The system used in the Pokémon Ryo Tournament has been improved and enhanced to double battle specifications.

Image of the "Pokémon Battle Scope" distribution screen

- Real-time Pokémon battle match evaluation.
- The system displays the battle's status and potential next moves, making it easy for novice Pokémon battle spectators to watch the battle.



Development Background

- "Pokémon Battle Scope" is a game direction AI specialized for Pokémon battles, and its development started with the aim of making Pokémon battles enjoyable for a wide range of people.
- HEROZ is in charge of AI development, data input/output, and adjustment for "Pokémon Battle Scope," leveraging its technological strengths cultivated through the development of AI-powered games such as "Shogi Wars" and AI for game analysis.

※ The production and production aspects of the distribution screen are provided by The Pokémon Company. and other companies outside of HEROZ.

Kishin Analytics" is introduced as the evaluation value of Shogi live broadcasts from the Meijin Tournament.

- Kishin Analytics," a Shogi AI analysis system, is now provided to the YouTube channel "Igo/Shogi ch Mainichi Shimbun" operated by the Mainichi Newspapers.
- Live streaming of the 82nd Meijin-Sen matches to be held on April 10

Making watching Shogi easier to understand and more authentic.

- Shogi AI analysis is applied to the evaluation value of the live-streamed game.

Kishin Analytics" is installed in "Shogi & Go Channel: Mainichi Shimbun", which displays customized analysis results to improve the convenience of users watching. Live broadcasts of the Mainichi Shimbun-sponsored Meijin, Ousho, and Class-A rank tournaments, the most prestigious title tournaments in the chess world, are also available for "watching Shogi" by installing AI for professionals.



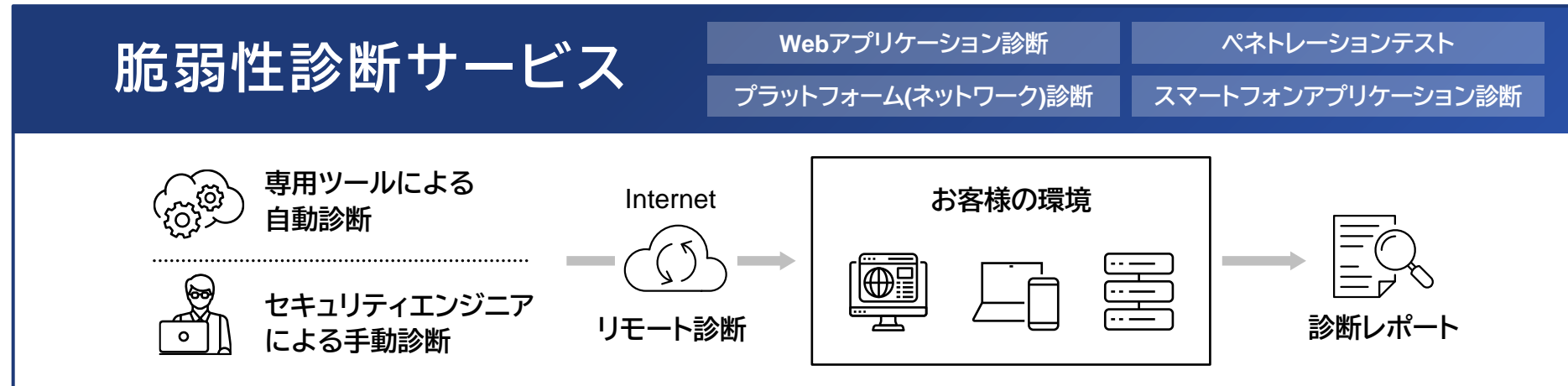
Analysis screen of the board by Kishin Analytics *The production is different from the distribution screen of "Shogi & Go CH Mainichi Shimbun".

About Kishin Analytics



- HEROZ's "Kishin Analytics" is a Shogi analysis AI system that was launched in May 2010 to provide professional Shogi players with easy access to the latest Shogi AI research.
- Now, a light version is also available at a reduced price so that not only professional players but also general Shogi players can enjoy full-scale analysis.

- Comprehensive support for small and medium-sized businesses' security with the launch of vulnerability assessments and managed LAN/Wi-Fi



脆弱性診断後のセキュリティ強化を柔軟に対応

<p>UTM運用のマネージドサービス</p> <p>インターネットゲートウェイの運用管理体制強化</p> <p>VSRマネージドセキュリティサービス</p>	<p>次世代エンドポイント対策</p> <p>ウイルス・マルウェアの検知強化 ／最新サイバー攻撃対策</p> <p>Vario Endpoint Security</p>	<p>セキュリティ強化型バックアップ</p> <p>ランサムウェア感染被害を受けにくいバックアップ</p> <p>VDaP-Vario Data Protect</p>	<p>LAN内スイッチ、Wi-Fi APを一括管理</p> <p>社内のネットワーク／Wi-Fi トラブル回避と脆弱性対応強化</p> <p>VarioマネージドLAN / Wi-Fi</p>
--------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------

- HEROZ's AI technology is used to promote a project to streamline network security operation and management tasks.

「AI SoC」 Project

Project Summary

- Automation of technical support contact work previously performed by experienced operators through the use of AI.
- Full-scale use of LLM to improve support quality and efficiency, security training, etc.

Expected Benefits

- Achieve cost reduction and quality improvement.
- Improvement of service level by reducing work time.
- Expansion of service scope through the utilization of large amounts of teacher data.

Project Progress

- Introduced AI to the support desk of VSR Managed Security Services to automatically determine the complexity of customer requirements and semi-automate subsequent processing.

Future Outlook

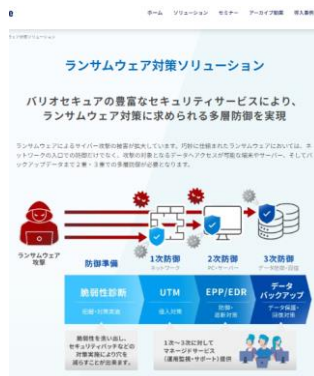
- Introducing AI to front desk support operations as well, to reduce training costs and improve response quality.
- Directly linking the operation platform system and AI to provide necessary and sufficient operation services according to customer characteristics.

Strengthen marketing initiatives

- Solution website opened to the public and marketing measures strengthened. Aiming to increase demand through direct sales.

Solution site open to the public

Consolidate cybersecurity-related content, Strengthen cross-selling



- Solutions
- Seminar Information
- Archived Webinar Videos
- Useful Documents
- Case Studies
- Security Column

Content Examples

Archived Webinar Videos



- Distribution begins in January 2024
- Number of videos: 9
- Highest viewed more than 700 times

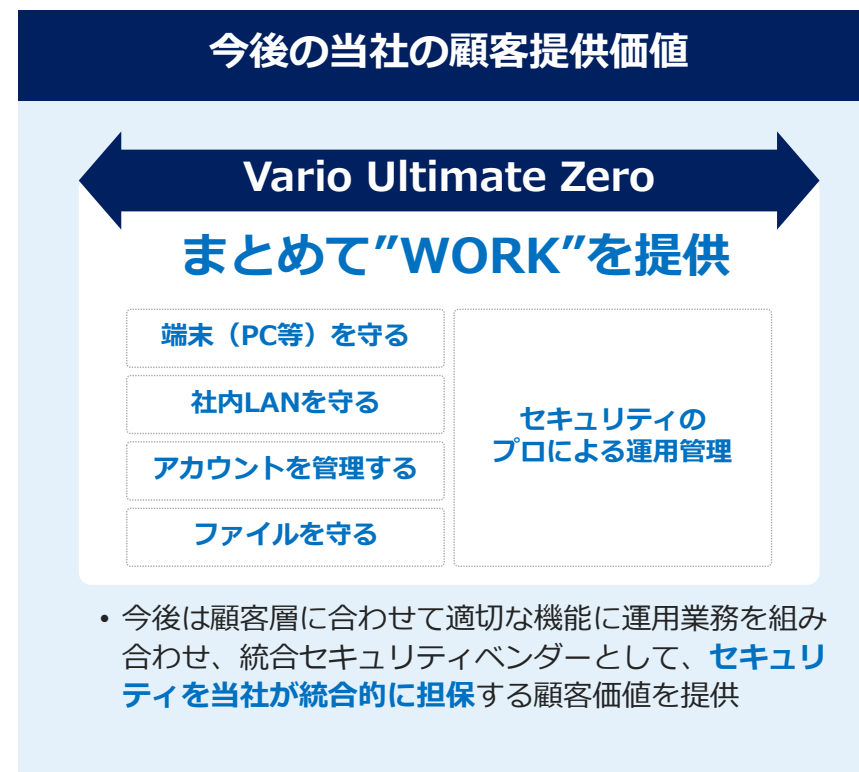
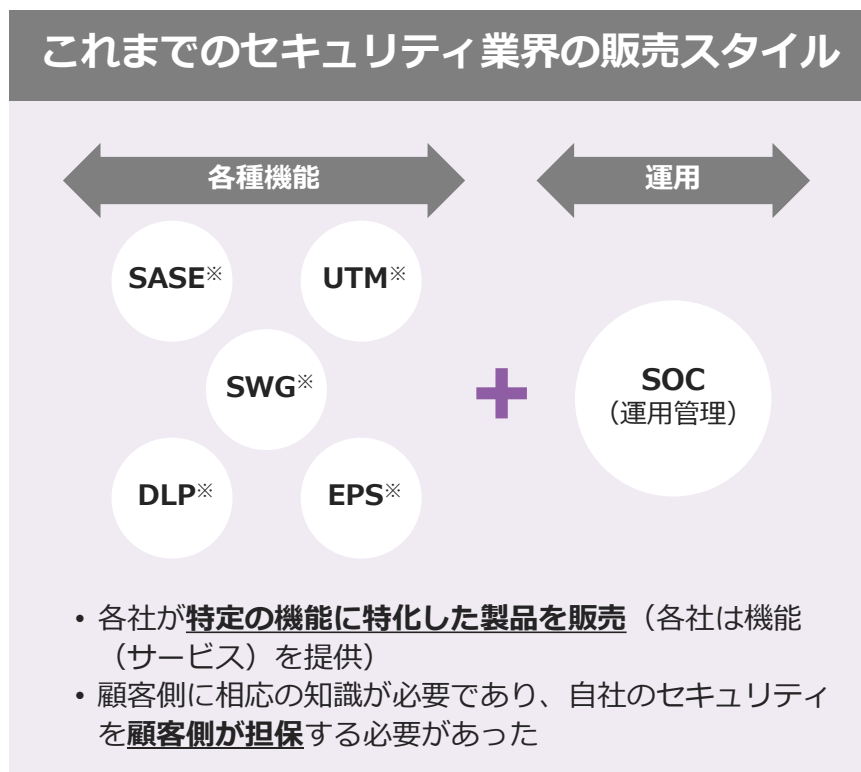
Case Studies



- Overview of Introducing Companies
- How to Use the Service
- Effects of Service Introduction
- Interview with the person in charge

Value provided to future customers

- The sales style in this industry to date has been a system in which customers combine various functions to ensure security, but it has been difficult for our main customer base to select functions.
- **Going forward, we will provide optimal security packages to our customers and shift our focus to business value, providing security rather than selling conventional functionality.**



※ UTM (Unified Threat Management) : コンピュータウイルスやハッキングなどの脅威から、コンピューターネットワークを効率的かつ包括的に保護する管理手法
※ SASE (Secure Access Service Edge) : ネットワークの機能とセキュリティの機能を一体として提供するサービス、またはその考え方・概念
※ SWG (Secure Web Gateway) : エンドユーザーが社外ネットワークへのアクセスを安全に行うためのプロキシ
※ DLP (Data Loss Prevention) : 機密情報や重要データを自動的に特定し、データを常に監視・保護する機能
※ EPS (End Point Security) : ネットワークに接続される末端機器を悪質なサイバー攻撃から守ることを目的としたセキュリティ対策やソリューション

- Launched "Vario Ultimate ZERO," a zero-trust security service suited to the scale of small and midsize companies.
- From cloud computing to office environments, both security assurance and labor-saving operation and maintenance

Managed services for zero-trust security with minimal configuration = Vario Ultimate ZERO

クラウド型ネットワーク・セキュリティ **新サービス**

Vario SASE

Vario FWaaS Vario SWG Vario IPS

- クラウドからオンプレまで対応可能
- 接続の経路上でセキュリティ確保



業務アプリケーションPortal **新サービス**

Vario IDaaS

Vario IDaaS

- 認証・シングルサインオン
- アカウント管理・サービス登録
- アクセス(端末)管理
- ディレクトリ統合

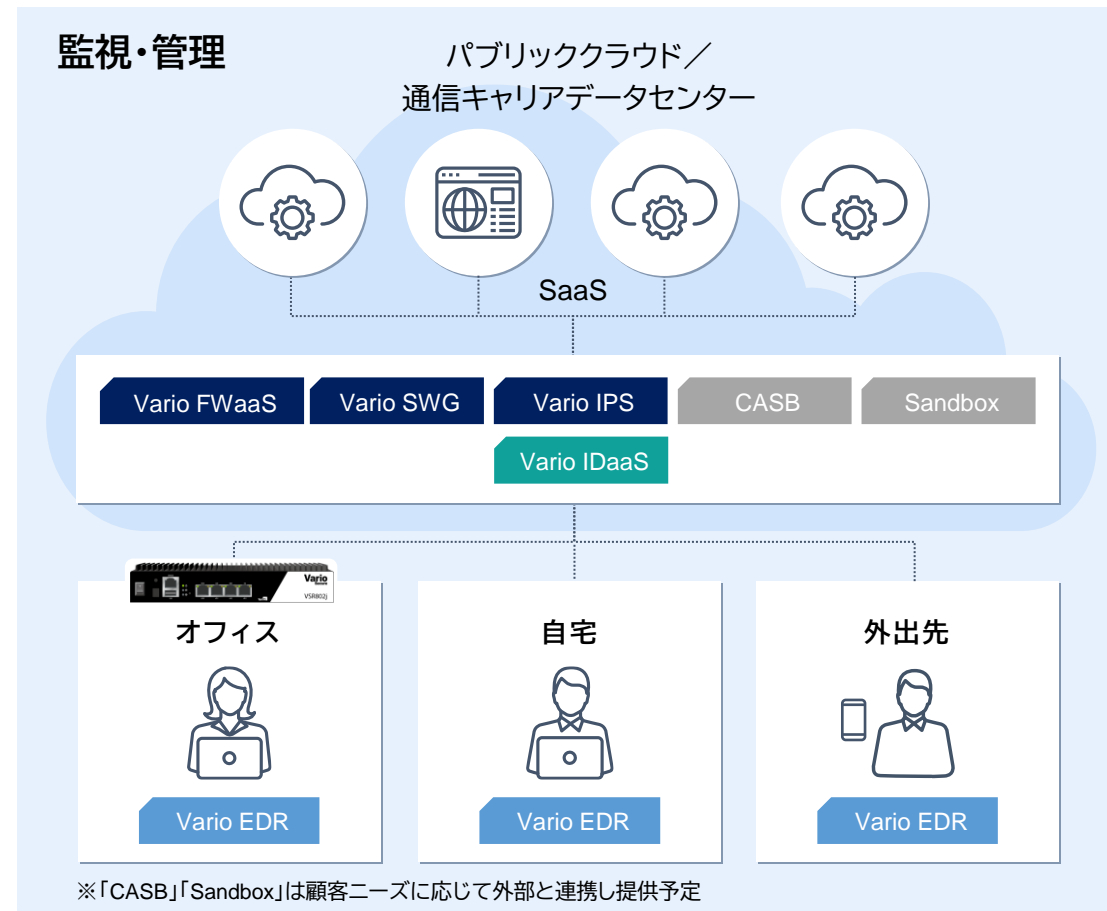


最新のサイバー攻撃の検知・防御 **既存サービス**

Vario EDR

Vario EDR

- ランサムウェア対策
- 未知の攻撃への対策
- マルウェア感染された端末の自動隔離



07

Frequently Asked Questions and Answers

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

Q : Are there any factors that are likely to increase costs over the current fiscal year (ending April 2025), such as a significant increase in personnel?

A : Yes, in the fiscal year ending April 2025, we will continue to strengthen our investment in human resources and aggressively invest in the release of new products.

In February 2024, the Group released paid beta versions of two products, "HEROZ ASK" and "JOINT," and after receiving feedback from enterprise companies, released the official versions in May.

In the current fiscal year, we will actively hire personnel for the operation of these products, customer success, and the expansion of functions. In addition, we expect to hire personnel for marketing and incur expenses for advertising in conjunction with the official release of the products.

In launching SaaS-type products, while costs will be incurred upfront, the earnings model will be an accumulative one, so while sales will steadily increase, investments will be made upfront. Therefore, the product business will be in the red for the time being, but we will make it profitable beyond the break-even point by accumulating stable sales on an ongoing basis.

The Group's profit policy for the current fiscal year is to continue in the investment phase. We appreciate your understanding.

- 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.