



May 9, 2022

Company Name free K.K.
Representative Daisuke Sasaki, CEO and Representative Director
Code No. 4478, Tokyo Stock Exchange Growth
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Notice of Conversion of Mikatus Inc. into a Wholly Owned Subsidiary through Simplified Share Exchange with Cash Consideration

The Company announces that the Board of Directors' meeting resolved as of May 9, 2022 a transaction, in which the Company will make Mikatus Inc. ("Mikatus") its wholly owned subsidiary, through a share exchange ("Share Exchange") with cash consideration, whereby the Company will become the wholly owning parent company in share exchange and Mikatus will become the wholly owned subsidiary in share exchange, and that Mikatus and Managing Shareholders of Mikatus (defined below) have entered into an agreement ("Agreement") concerning implementation of such transaction, as follows.

The Company plans to implement the Share Exchange without obtaining approval of the shareholders' meeting of the Company, in accordance with the procedures for a simplified share exchange pursuant to the provisions of Article 796, Paragraph 2 of the Companies Act.

1. Purpose of the Share Exchange

With its mission of "Empower Small Businesses to Take Center Stage", the Company develops and provides services focused on integrated cloud ERP aimed at realization of "Integrated Management Platform for Everyone to Manage Business Freely".

With its corporate vision of "Let quality accountants service commonplace", Mikatus has provided a cloud tax, accounting and payroll system "A-SaaS" for tax accountants to accounting firms and their clients. A-SaaS has built up trust and presence since its launch in 2010 as a cloud service that integrates accounting, payroll, and taxation, and been used by more than 1,000 accounting firms nationwide.

Through the Share Exchange, the free Group will incorporate the know-how in cloud services that Mikatus has acquired through A-SaaS to establish a structure that will enable it to provide cloud services that can be used by all accounting firms and their clients. Also, by drawing A-SaaS's customers in, the free Group will increase its share in accounting firms and accelerate the penetration of its services into its clients, i.e. small businesses.

2. Overview of the Share Exchange

(1) Schedule of the Share Exchange

Date of execution of the Agreement (between the Company, Mikatus and others)	May 9, 2022
Date of execution of the share exchange agreement for the Share Exchange (between the Company and Mikatus) ("Share Exchange Agreement")	May 17, 2022 (scheduled)
Date of resolution at the shareholders' meeting (Mikatus)	June 10, 2022 (scheduled)
Effective date of the Share Exchange	June 30, 2022 (scheduled)
Date of cash payment	October 2022 (scheduled)

(Note) The Company plans to implement the Share Exchange without obtaining approval of the shareholders' meeting of the Company, in accordance with the procedures for a simplified share exchange pursuant to the provisions of Article 796, Paragraph 2 of the Companies Act.

(2) Method of the Share Exchange

The Share Exchange is an exchange of shares whereby the Company will become the wholly owning parent company in share exchange and Mikatus will become the wholly owned subsidiary in share

exchange. The Share Exchange will be conducted after obtaining an approval for the Share Exchange Agreement by the resolution at the shareholders' meeting of Mikatus to be held on June 10, 2022. The Company plans to implement the Share Exchange without obtaining approval of the shareholders' meeting of the Company, in accordance with the procedures for a simplified share exchange pursuant to the provisions of Article 796, Paragraph 2 of the Companies Act.

(3) Details of the Allotment Pertaining to the Share Exchange

Pursuant to the provisions of Article 768, Paragraph 1, Item 2 of the Companies Act, in accordance with the Share Exchange Agreement, the Company will deliver cash in the amount of JPY 22,415 per common share of Mikatus (JPY 2,075,247,945 in total(expected)) ("Consideration for Share Exchange") to the shareholders of Mikatus as of the time ("Record Time") immediately before the acquisition by the Company of all of the issued and outstanding shares of Mikatus through the Share Exchange. All class shareholders of Mikatus plan to agree to convert all of their class shares into common shares of Mikatus by the time separately agreed with the Company.

In addition, Mikatus plans to cancel, immediately before the Record Date, all of its treasury shares (including treasury shares acquired by Mikatus in response to the dissenting shareholders' appraisal rights that will be exercised in connection with the Share Exchange) held immediately prior to the Record Time, in accordance with a resolution of the Board of Directors' meeting to be held by the day immediately preceding the effective date of the Share Exchange.

(4) Treatment of share acquisition rights and bonds with share acquisition rights in the Share Exchange

Mikatus plans to acquire all of the issued share acquisition rights (the 3rd share acquisition rights issued on March 31, 2015, the 10th share acquisition rights issued on May 29, 2017, the 10th (2) share acquisition rights issued on October 18, 2017, the 11th share acquisition rights issued on May 31, 2018, the 11th (2) share acquisition rights issued on July 31, 2018, the 11th (3) share acquisition rights issued on November 16, 2018, the 12th share acquisition rights issued on May 23, 2019, the 12th (2) share acquisition rights issued on November 29, 2019, the 13th (1) share acquisition rights issued on July 15, 2020, the 13th (2) share acquisition rights issued on November 30, 2020 and the 14th share acquisition rights issued on November 5, 2021) in accordance with the agreement with each holder of share acquisition rights or to cancel them after each holder of share acquisition rights declared an intention to waive their share acquisition rights - note that, according to Mikatus, it has not issued any bonds with share acquisition rights.

(5) Underwriting capital increase by third-party allotment by Mikatus

The Company plans to underwrite capital increase of approximately JPY 450 million by way of third-party allotment by Mikatus with the Company as the allottee, at a time to be agreed by both companies after the Share Exchange becomes effective. Mikatus plans to use the proceeds for purpose of acquiring the share acquisition rights described in "(4) Treatment of share acquisition rights and bonds with share acquisition rights in the Share Exchange" and the others - note that the amount of approximately JPY 450 million to be underwritten by the allotment may change depending on the status of the share acquisition rights.

3. Grounds for the Details of the Allotment of Shares in the Share Exchange

(1) Grounds and reasons for the details of the allotment

As described in "1. Purpose of the Share Exchange", around July 2021, the Company, together with Mikatus, determined that the Share Exchange could contribute to the enhancement of the corporate values of both companies and, in turn, to the enhancement of the common interests of their shareholders, and accordingly commenced specific discussions and deliberations with Mikatus regarding the terms and conditions of the Share Exchange.

In the Share Exchange, in light of the circumstances that Japan Ventures I L.P., which is one of Managing Shareholders of Mikatus (Please refer to the table below), is mainly involved in the selection of the purchaser of Mikatus shares and in the negotiation with the Company concerning the Consideration for Share Exchange, and that the Managing Shareholders of Mikatus will execute the Agreement with the Company, in order to ensure the fairness of the Share Exchange, the Company has appointed Anderson Mori & Tomotsune as its legal advisor for the Share Exchange, and appointed AIPartners, Inc. ("AIP") as its financial advisor, and has received advice from them on the methods and processes of decision-making, including the procedures for the Share Exchange.

Managing Shareholders of Mikatus (Corporate shareholders)

Name	Address	Representatives
Japan Ventures I L.P.	Pembroke Hall 42 Crow Lane, Pembroke HM 19, Bermuda	Eight Roads GP
Arbor Venture Fund I L.P.	c/o Campbells Corporates Services Limited Floor4, Willow House, Cricket Square. P.O. Box 268, Grand Cayman KY11104, Cayman Islands	Arbor Venture Fund GP I, L.P.
AT-I Investment Limited Partnership	ARK Mori Building 3rd floor 12-32 Akasaka 1-chome, Minato-ku, Tokyo	Yusuke Amano, CEO of STRIVE Inc.
Digital Holdings, Inc.	Tokyu Bancho Bldg., 6 Yonbancho, Chiyoda-ku, Tokyo	Atsushi Nouchi, President and Group CEO
Salesforce Japan Co., Ltd.	Nippon Life Marunouchi Garden Tower (Salesforce Tower) 1-1-3 Marunouchi, Chiyoda-ku, Tokyo	Shinichi Koide, Chairman and Chief Executive Officer
i-mercury Capital, Inc.	Shibuya Scramble Square 36th floor, 24-12 Shibuya 2-chome, Shibuya-ku, Tokyo	Kazuhiro Shin, President
AG Capital K.K.	31-19 Shiba 2-chome, Minato-ku, Tokyo	Taku Sameshima, PRESIDENT
SMBC Venture Capital NO.1 Investment Limited Partnership	3-4, Yaesu 1-chome, Chuo-ku, Tokyo	Akira Ochiai, President

Managing Shareholders of Mikatus (Individual shareholders)

Name	Address	Position at Mikatus
Keisuke Tanaka	Kamakura City, Kanagawa	President and Representative Director
Nobuhiro Yamazaki	Minato-ku, Tokyo	Executive Officer and CFO

According to Mikatus, it has appointed investment hub Corporation (“investment hub”) as a third-party calculation agent that is independent of the Company, Mikatus and the Managing Shareholders of Mikatus, and appointed TMI Associates as a legal advisor that is independent of the Company, Mikatus, and the Managing Shareholders of Mikatus.

According to Mikatus, under this team structure, it has, for the following reasons, determined that the Share Exchange and the Consideration for Share Exchange will provide general shareholders of Mikatus with a dependable opportunity to convert their shares at a reasonable price, thereby contributing to their interests, after repeated and sincere negotiations and discussions based on the following facts, based on the analysis of its financial conditions, performance trends, and share price trends, taking into account the share price valuation report (“Share Price Valuation Report”) received from investment hub, a third party calculation agent on May 2, 2022, and the advice from the legal advisor appointed by Mikatus, as described in “(4) Measures to ensure fairness and measures to avoid conflict of interests” below.

The Consideration for Share Exchange is subject to changes upon discussion and agreement between the two companies in the event of a material change in the terms and conditions upon which the calculation is based.

- (i) The sum of the Consideration for Share Exchange of JPY 22,415 (JPY 2,075,247,945 in total(expected)) and the proceeds to be raised through third-party allotment (approximately JPY 450 million), which is approximately JPY 2,500 million in total, is within the scope of the calculation results of the comparable company analysis and the calculation results of the discounted cash flow (DCF) method in the Share Price Valuation Report prepared by investment hub as described in “(i) Obtaining of valuation report from an independent third party calculation agent” in “(4) Measures to ensure fairness and measures to avoid conflict of interests” below. In addition, investment hub evaluated the value of Mikatus shares from multiple perspectives using

several methods, including the comparable company analysis and the DCF method, and has concluded that the appropriateness of a consideration for the Share Exchange was maintained.

- (ii) The interests of general shareholders are considered to have been taken into consideration, such as measures to ensure fairness and to eliminate conflicts of interest as described in “(4) Measures to ensure fairness and measures to avoid conflict of interests” below.
- (iii) The Consideration for Share Exchange is a price that is not disadvantageous to the general shareholders of Mikatus that has been determined after taking the above measures and after multiple rounds of discussions and negotiations have been held between the Company and Mikatus or Managing Shareholders of Mikatus as an arm’s length transaction.

The Consideration for Share Exchange was paid in cash for the following reasons. The Company and Mikatus have carefully considered the consideration for the Share Exchange, by giving consideration to Mikatus’ general shareholders, and by paying careful attention to ensuring fairness and avoiding conflicts of interest.

- (i) If the consideration for the Share Exchange are shares, depending on the subsequent changes in the price of the Company’s shares that will be delivered to the general shareholders of Mikatus, the Share Exchange may not necessarily be beneficial to the general shareholders of Mikatus. Accordingly, it is believed that implementing the Share Exchange with cash consideration at a reasonable price will provide the general shareholders of Mikatus with a dependable opportunity to convert their shares at a reasonable price.
- (ii) It is believed that cash consideration will also be beneficial to the general shareholders of the Company as it will not cause dilution of their shares, and they will be able to enjoy future synergies from the business development of the two companies as a whole.

(2) Matters concerning calculation

- (i) Name of calculation agent and relationship with listed companies and the counterparty
AIP, the financial advisor appointed by the Company, is a calculation agent independent of the Company and Mikatus, does not fall under a related party of the Company or Mikatus and does not have significant interests to be stated with regard to the Share Exchange.

(ii) Outline of calculation

AIP calculated the value of Mikatus shares using the DCF method based on the future cash flow (profitability) of the business in order to reflect the status of the future business activities in the evaluation, taking into consideration the fact that Mikatus is an unlisted company. In the financial forecasts of Mikatsu, on which AIP based its calculations using the DCF method, there are fiscal years in which a significant increase or decrease in profit is expected. Specifically, Mikatus expects to increase profits by more than 30% year-on-year in the fiscal years ending January 31, 2024 and 2025, respectively, based on an increase in sales and operational efficiencies resulting from the synergies created by its entry into the freee Group. The result of the calculation of the value of Mikatus shares is as follows:
JPY 2,398 million to 3,008 million

As a result of repeating consultations with Mikatus carefully by referencing the result of calculation of the value of Mikatus shares obtained from AIP based on the financial status, asset status and the future prospects for business activities, etc. of Mikatus, the Company reached and made the decision that it is appropriate and will contribute to the interests of the shareholders of both companies if the final Consideration for Share Exchange is JPY 22,415 per share and the subscription price for third-party allotment is approximately JPY 450 million.

In respect of the calculation of the value of Mikatus shares, AIP is based on the premise that the information provided from the Company and publicly disclosed information, etc. are used as is in principle and that all such material and information are accurate and complete. AIP has not independently conducted validation of the accuracy and completeness of the material and information. Further, AIP has not independently conducted evaluation or assessment of the assets and liabilities (including contingent liabilities) of Mikatus – note that the Company has not obtained the opinion of AIP on the fairness of the Consideration for Share Exchange, etc. (fairness opinion.)

(3) Prospect of being delisted and its reason

As the shares in Mikatus, the prospective wholly owned subsidiary in share exchange, is not listed on financial instruments exchange, there is no relevant matter.

(4) Measures to ensure fairness and measures to avoid conflict of interests

In the Share Exchange, in light of the circumstances that Japan Ventures I L.P., which is one of Managing Shareholders of Mikatus is mainly involved in the selection of the purchaser of Mikatus shares and in the negotiation with the Company concerning the Consideration for Share Exchange, and that the Managing Shareholders of Mikatus will execute the Agreement with the Company, the Company and Mikatus determined that it is necessary to ensure fairness of the Share Exchange and that the Company and Mikatus have implemented the following measures to ensure the fairness:

- (i) Obtaining of valuation report from an independent third party calculation agent
According to Mikatus, in order to determine the Consideration for Share Exchange and the total amount to be paid in the third-party allotment, Mikatus requested investment hub, a third party calculation agent independent of the Company, Mikatus or Managing Shareholders of Mikatus, to calculate the value of Mikatus shares and obtained the Share Price Valuation Report dated May 2, 2022. The result of the valuation of the Mikatus value is approximately as follows.
The comparable company analysis : JPY 2,268 million to JPY 3,069 million
The discounted cash flow method : JPY 2,373 million to JPY 3,080 million

The remuneration for investment hub as a third party calculation agent is fixed remuneration, and contingency fees are not adopted.

- (ii) Advice from an independent law firm
The Company has appointed Anderson Mori & Tomotsune as its legal advisor for the Share Exchange and has received advice from legal perspectives on the methods and processes of decision-making, including the procedures for the Share Exchange. Anderson Mori & Tomotsune is independent of the Company and Mikatus and has no significant interests.
On the other hand, according to Mikatus, in order to ensure the fairness and appropriateness of the decision making at the Board of Directors meetings, it has appointed TMI Associates as a legal advisor independent of the Company, Mikatus, or Managing Shareholders of Mikatus and has received advice from legal perspectives on the methods and processes of decision-making, including the procedures for the Share Exchange.
TMI Associates is independent of the Company or Mikatus or Managing Shareholders of Mikatus, and has no significant interests. Further, the remuneration for TMI Associates concerning the Share Exchange is by the hour, and contingency fees are not adopted.

- (iii) Implementation of tendering procedures
From early October 2021, Mikatus implemented the bidding process by approaching 4 candidate companies. As a result, Mikatus determined that the Company is the best candidate also for the sake of the shareholders of Mikatus, after comprehensively taking into account the speed and certainty, etc., of the transaction based on the swiftness of the Company's internal approval process in addition to the transaction scheme presented in the letter of intent provided by the Company to Mikatus and the consideration distributed to shareholders of Mikatus based on the transaction scheme.

4. Outline of the parties to the Share Exchange

	Wholly owning parent company in share exchange	Wholly owned subsidiary in share exchange
(1) Name	freee K.K.	Mikatus Inc.
(2) Location	8-1, Nishigotanda 2-chome, Shinagawa-ku, Tokyo	1-3, Nihonbashibakurocho 2-chome, Chuo-ku, Tokyo
(3) Title and name of representative	Representative Director and CEO Daisuke Sasaki	Representative Director and President Keisuke Tanaka
(4) Details of business	Development and provision of cloud-native and integrated ERP service	Planning, development and sales of cloud service for tax accountants and for small and medium-sized enterprises
(5) Stated capital	JPY 24,461 million(as of December 31, 2021)	JPY 199 million(as of January 31, 2022)

(6) Date of incorporation	July 2012	June 2009																																																																		
(7) Number of issued shares	55,731,963 shares (as of December 31, 2021)	92,583 shares Common shares 24,209 shares Series A preferred shares 27,000 shares Series B preferred shares 29,412 shares Series C preferred shares 11,962 shares (as of January 31, 2022)																																																																		
(8) Fiscal period	June 30	January 31																																																																		
(9) Number of employees	656 (as of June 30, 2021)	83 (as of January 31, 2022)																																																																		
(10) Major customers	Not applicable.	Not applicable.																																																																		
(11) Main bank	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Mizuho Bank, Ltd.																																																																			
(12) Large shareholders and their shareholding ratio	Daisuke Sasaki 19.93% MSIP CLIENT SECURITIES 7.39% GOLDMAN SACHS & Co. REG 4.97% DCM VI,L.P. 4.35% GOLDMAN SACHS INTERNATIONAL 4.08% (as of December 31, 2021)	Japan Ventures I L.P. 34.71% Arbor Venture Fund I. L.P. 12.22% AT-I Investment Limited Partnership 10.80% Digital holdings, Inc. 6.48% Salesforce Japan Co., Ltd. 3.24% (as of January 31, 2022)																																																																		
(13) Relationship between the parties	<table border="1"> <tr> <td>Capital relationship</td> <td>Not applicable.</td> </tr> <tr> <td>Personal relationship</td> <td>Not applicable.</td> </tr> <tr> <td>Business relationship</td> <td>There are no business relationships.</td> </tr> <tr> <td>Whether the parties fall under related parties</td> <td>Not applicable.</td> </tr> </table>		Capital relationship	Not applicable.	Personal relationship	Not applicable.	Business relationship	There are no business relationships.	Whether the parties fall under related parties	Not applicable.																																																										
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(14) Operating results and financial position for the most recent 3 years (JPY in million)	<table border="1"> <thead> <tr> <th rowspan="2">Fiscal period</th> <th colspan="3">freee K.K.(consolidated)</th> <th colspan="3">Mikatus Inc. (stand-alone)</th> </tr> <tr> <th>Period ended June 2019</th> <th>Period ended June 2020</th> <th>Period ended June 2021</th> <th>Period ended January 2020</th> <th>Period ended January 2021</th> <th>Period ended January 2022</th> </tr> </thead> <tbody> <tr> <td>Net assets</td> <td>4,510</td> <td>13,854</td> <td>46,871</td> <td>△281</td> <td>△290</td> <td>△207</td> </tr> <tr> <td>Total assets</td> <td>7,380</td> <td>17,898</td> <td>55,286</td> <td>130</td> <td>167</td> <td>161</td> </tr> <tr> <td>Net assets per share (JPY)</td> <td>△287.97</td> <td>278.29</td> <td>849.99</td> <td>△31,144.45</td> <td>△31,242.46</td> <td>△30,342.00</td> </tr> <tr> <td>Net sales</td> <td>4,516</td> <td>6,895</td> <td>10,258</td> <td>616</td> <td>675</td> <td>741</td> </tr> <tr> <td>Operating income or operating loss (△)</td> <td>△2,830</td> <td>△2,681</td> <td>△2,441</td> <td>△37</td> <td>4</td> <td>87</td> </tr> <tr> <td>Ordinary profit or ordinary loss(△)</td> <td>△2,850</td> <td>△2,938</td> <td>△2,719</td> <td>△40</td> <td>1</td> <td>84</td> </tr> <tr> <td>Net loss (△) attributable to the</td> <td>△2,778</td> <td>△2,972</td> <td>△2,756</td> <td>△47</td> <td>△9</td> <td>83</td> </tr> </tbody> </table>						Fiscal period	freee K.K.(consolidated)			Mikatus Inc. (stand-alone)			Period ended June 2019	Period ended June 2020	Period ended June 2021	Period ended January 2020	Period ended January 2021	Period ended January 2022	Net assets	4,510	13,854	46,871	△281	△290	△207	Total assets	7,380	17,898	55,286	130	167	161	Net assets per share (JPY)	△287.97	278.29	849.99	△31,144.45	△31,242.46	△30,342.00	Net sales	4,516	6,895	10,258	616	675	741	Operating income or operating loss (△)	△2,830	△2,681	△2,441	△37	4	87	Ordinary profit or ordinary loss(△)	△2,850	△2,938	△2,719	△40	1	84	Net loss (△) attributable to the	△2,778	△2,972	△2,756	△47	△9	83
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shareholders of the parent company for the period / Net income (loss)							
Net loss per share for the period (Δ)(JPY)	$\Delta 68.27$	$\Delta 66.18$	$\Delta 54.88$	$\Delta 514.09$	$\Delta 98.00$	900.47	
Dividend per share(JPY)	—	—	—	—	—	—	—

5. Status after the Share Exchange

No changes of the Company's name, location, title and name of the representative, details of business, or fiscal period will occur as a result of the Share Exchange.

6. Outline of accounting processes

The accounting processes in connection with the Share Exchange fall under "acquisition" under Accounting Standard for Business Combination and goodwill is expected to occur in the consolidated financial statements of the Company. The amount of such goodwill is not fixed as of today.

7. Future prospects

As a result of the Share Exchange, Mikatus becomes a consolidated subsidiary of the Company, and the deemed acquisition date is expected to be June 30, 2022. Thus, for the relevant consolidated accounting period, only the balance sheet of Mikatus will be included in the consolidation, and the impact of this transaction on the Company's consolidated results for the period ended June 2022 is expected to be minor.

End