

English Translation

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**Consolidated Financial Results
for the Nine Months Ended March 31, 2022
[Japanese GAAP]**

May 13, 2022

Company name: freee K.K.
 Listing: Tokyo Stock Exchange
 Securities code: 4478
 URL: <http://www.freee.co.jp>
 Representative: Daisuke Sasaki, Representative Director and CEO
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Scheduled date to file quarterly securities report: May 13, 2022
 Scheduled date to commence dividend payment: -
 Preparation of supplementary materials on financial results: Yes
 Holding of financial results meeting: Yes (for institutional investors and analysts)

(Millions of yen with fractional amounts rounded down, unless otherwise noted)

**1. Consolidated financial results for the first nine months of the fiscal year ending June 30, 2022
(from July 1, 2021 to March 31, 2022)**

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Adjusted operating profit		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended										
March 31, 2022	10,507	43.8	(1,526)	-	(2,080)	-	(2,099)	-	(2,237)	-
March 31, 2021	7,306	49.5	(1,341)	-	(1,437)	-	(1,513)	-	(1,519)	-

Notes: 1. Comprehensive income
 Nine months ended March 31, 2022: ¥(2,229) million [-%]
 Nine months ended March 31, 2021: ¥(1,519) million [-%]

2. Adjusted operating profit is the sum of the operating profit, stock-based compensation expenses, expenses for amortization of acquisition-related intangible assets, and one-time cost.

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
March 31, 2022	(40.33)	-
March 31, 2021	(31.10)	-

Note: 1. Diluted earnings per share is not stated because, although potential shares exist, basic loss per share was recorded.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
March 31, 2022	53,556	45,666	84.6
June 30, 2021	55,286	46,871	84.2

Reference: Equity
 As of March 31, 2022: ¥45,323 million
 As of June 30, 2021: ¥46,560 million

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2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2021	-	0.0	-	0.0	0.0
Fiscal year ending June 30, 2022	-	0.0	-	-	-
Fiscal year ending June 30, 2022 (Forecast)	-	-	-	0.0	0.0

Note: Revisions to the forecast of dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending June 30, 2022 (from July 1, 2021 to June 30, 2022)

For the fiscal year ending June 30, 2022, we forecast net sales of 13,971 million yen (up 36.2% compared to net sales in the fiscal year ended June 30, 2021) and adjusted operating loss(*2) of 2,561 million yen (compared to a loss of 2,301 million yen in the fiscal year ended June 30, 2021) for Platform business(*3), reflecting the expansion of the customer base and enhancement of customer value in the SaaS business and other factors. Adjusted operating profit margin is expected to improve by 4.1 pts to negative 18.3% from the previous fiscal year on the back of an increase in subscription net sales.

As for Other businesses(*4), following the sale of the Shikaku Square business operated by our consolidated subsidiary Sight Visit Inc., announced on October 15, 2021, the Shikaku Square business was deconsolidated at the end of November 2021.

(Percentages indicate year-on-year changes.)

	Platform business			Other businesses			Consolidated					
	Net sales		Adjusted operating profit	Net sales		Adjusted operating profit	Net sales		Adjusted operating profit			
Fiscal year ending June 30, 2022	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%		
	13,971	36.2	(2,561)	-	390	-	100	-	14,361	40.0	(2,461)	-

- Notes:
- Revisions to the earnings forecasts most recently announced: None
 - Adjusted operating profit is the sum of the operating profit, stock-based compensation expenses, expenses for amortization of acquisition-related intangible assets, and one-time cost.
 - Platform business: Business consisting of the integrated cloud ERP offering for small businesses and financial services, etc.
 - Other businesses: Businesses other than Platform business (Shikaku Square provided by Sight Visit Inc.).

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*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatement

a. Changes in accounting policies due to revisions to accounting standards and other regulations: Applicable

b. Changes in accounting policies other than a. above: None

c. Changes in accounting estimates: None

d. Retrospective restatement: None

(4) Number of issued shares (Common stock)

a. Total number of issued shares at the end of the period (including treasury stock)

As of March 31, 2022	56,448,974 shares
As of June 30, 2021	54,778,125 shares

b. Number of treasury stock at the end of the period

As of March 31, 2022	382 shares
As of June 30, 2021	-

c. Average number of outstanding shares during the period

Nine months ended March 31, 2022	55,482,980 shares
Nine months ended March 31, 2021	48,866,412 shares

* This consolidated financial results are exempt from quarterly review conducted by certified public accountants or audit firms.

* Proper use of earnings forecasts, and other special matters

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. The achievement of said forecasts cannot be promised. Results may differ materially from the consolidated forecasts due to various factors.

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1. Qualitative information regarding results for the period

(1) Explanation of operating results

We estimate that the TAM(*1) for cloud accounting and HR software for small businesses(*2) is around 1.2 trillion yen(*3). At present, however, among SMBs with less than 1,000 employees and self-employed that use accounting software, the adoption rate of cloud accounting software is only 25.2%(*4). We believe that this relatively low adoption rate represents an opportunity for us to further expand the use of cloud ERP software among SMBs. In line with our corporate mission “Empower Small Businesses to Take Center Stage,” we develop and offer services aimed at realization of “Integrated Management Platform for Everyone to Manage Business Freely.”

During the third quarter of the fiscal year, to further promote “NINJA SIGN by freee” as a group, we enabled login using a free account, rebranded the service name as “freee Sign,” and released “Starter Plan,” a plan for self-employed individual. We also enhanced the AI OCR function of “freee Accounting” to infer detailed information on invoices (e.g., supplier name, payee accounts, and withholding tax necessity).

For the Platform business(*5), ARR(*6) increased by 38.3% year-on-year to 14,571 million yen at the end of the third quarter, as well as the number of paying customers(*7) by 36.6% to 384,871, and ARPU(*8) by 1.3% to 37,861 yen. Moreover, for the first nine months of Platform business, net sales increased by 38.4% to 10,114 million yen year-over-year and adjusted operating loss(*9) was 1,619 million yen (1,341 million yen in the same period of the previous fiscal year).

As a result, for the first nine months of consolidated fiscal year under review, net sales increased by 43.8% year-over-year to 10,507 million yen, adjusted operating loss was 1,526 million yen (1,341 million yen in the same period of the previous fiscal year, and the same applies hereafter), operating loss was 2,080 million yen (1,437 million yen), ordinary loss was 2,099 million yen (1,513 million yen). Loss attributable to owners of parent resulted in 2,237 million yen (1,519 million yen).

Trends in ARR, Number of Paying Customers and ARPU for Platform business

	Jun. 30, 2019	Jun. 30, 2020	Jun. 30, 2021	Mar. 31, 2021	Mar. 31, 2022
ARR (¥ million)	5,273	7,898	11,268	10,533	14,571
Number of paying customers	160,132	224,106	293,296	281,822	384,871
ARPU (¥)	32,930	35,246	38,419	37,376	37,861

- Notes:
- TAM: Total Addressable Market. This figure represents our estimate of our maximum market opportunity and is not intended as an objective indicator of the actual size of the market for our businesses as of the date of submission of this report. Our estimate of the TAM for accounting software and HR software for small businesses is based on certain assumptions and was calculated using statistical data and publications from external sources by the calculation method shown in 3 below. Actual market size may differ from this estimate due to the limitations peculiar to such statistical data and publications in terms of their accuracy.
 - Small Businesses refers to businesses with less than 1,000 employees as well as self-employed individuals.
 - Total annual spending of all potential customers assuming that all potential customers in Japan adopted *freee Accounting* and *freee HR*. All potential customers are the total of self-employed and SMBs with less than 1,000 employees. (Number of businesses in each category among all potential customers of *freee Accounting* and *freee HR* (“Tax Statistics 2019” by National Tax Agency and “Economic Census for Business Activity, June 2016” by Ministry of Internal Affairs and Communications) × Annual base charge of *freee Accounting* and *freee HR* for each category) + (Estimated average number of employees in each category (“Employment Status Survey, 2017” by Ministry of Internal Affairs and Communications) × Annual charge per ID).
 - International Data Corporation(IDC), “Worldwide Public Cloud Services Spending Guide Software Add On: V2 2021.”
 - Figures represent the Group’s overall business, excluding the Shikaku Square business, operated by our consolidated subsidiary Sight Visit Inc., sold in December, 2021.
 - ARR: Annual Recurring Revenue. Monthly Recurring Revenue for last month of relevant period, multiplied by 12. Monthly Recurring Revenue is defined as the amount of fees contracted to be paid by customers on a monthly basis as of the end of a particular month (excludes one-time fees).
 - Refers to both self-employed and corporations that use our services.
 - ARPU: Average Revenue Per User. Annual Recurring Revenue as of the end of the relevant period divided by the number of paying customers as of the end of the same period.
 - Adjusted operating profit is the sum of the operating profit, stock-based compensation expenses, expenses for amortization of acquisition-related intangible assets, and one-time cost.

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(2) Explanation of financial position

(Assets)

Total assets at the end of the period under review amounted to 53,556 million yen, a decrease of 1,729 million yen from the end of the previous fiscal year. This was primarily due to a decrease in cash and deposits by 2,854 million yen.

(Liabilities)

Total liabilities at the end of the period under review came to 7,890 million yen, a decrease of 524 million yen from the end of the previous fiscal year. This was mainly because of a decrease of 470 million yen in long-term other payable.

(Net assets)

Total net assets at the end of the period under review were 45,666 million yen, a decrease of 1,205 million yen from the end of the previous fiscal year. This was chiefly owing to a decrease in retained earnings by 2,247 million yen resulting from the posting of loss attributable to owners of parent.

(3) Explanation of consolidated earnings guidance and other forward-looking statements

Our consolidated financial guidance for the fiscal year ending June 30, 2022 has not been revised because the results are basically as originally anticipated.

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2. Quarterly consolidated financial statements and significant notes thereto**(1) Quarterly consolidated balance sheet**

	(Thousands of yen)	
	As of June 30, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	47,643,365	44,789,194
Accounts receivable - trade	1,314,115	1,435,696
Other	441,917	1,401,249
Allowance for doubtful accounts	(11,183)	(10,497)
Total current assets	49,388,215	47,615,643
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings	180,297	142,878
Accumulated depreciation	(107,701)	(111,362)
Facilities attached to buildings, net	72,596	31,516
Tools, furniture and fixtures	369,955	467,360
Accumulated depreciation	(173,822)	(246,871)
Tools, furniture and fixtures, net	196,133	220,489
Construction in progress	-	50,216
Total property, plant and equipment	268,729	302,221
Intangible assets		
Goodwill	3,885,552	2,872,210
Software	871,346	949,340
Software in progress	57,748	119,103
Other	218,000	-
Total intangible assets	5,032,647	3,940,654
Investments and other assets		
Investment securities	340,008	492,807
Lease and guarantee deposits	236,147	1,032,107
Other	48,126	187,568
Allowance for doubtful accounts	(27,559)	(14,215)
Total investments and other assets	596,722	1,698,268
Total non-current assets	5,898,100	5,941,145
Total assets	55,286,315	53,556,788

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	(Thousands of yen)	
	As of June 30, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Short-term borrowings	-	243,658
Current portion of long-term borrowings	62,610	45,800
Other payable	1,109,701	991,056
Accrued expenses	853,243	955,602
Income taxes payable	256,418	83,539
Unearned revenue	4,899,119	5,170,117
Provision for bonuses	39,306	66,256
Other	484,855	127,426
Total current liabilities	7,705,254	7,683,457
Non-current liabilities		
Long-term borrowings	229,436	154,776
Long-term other payable	480,000	10,000
Other	-	42,408
Total non-current liabilities	709,436	207,184
Total liabilities	8,414,690	7,890,641
Net assets		
Shareholders' equity		
Common stock	24,151,096	24,652,569
Capital surplus	40,057,134	40,558,608
Retained earnings (Accumulated deficit)	(17,645,362)	(19,893,249)
Total shareholders' equity	46,562,867	45,317,929
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(2,084)	3,514
Foreign currency translation adjustment	-	2,522
Total accumulated other comprehensive income	(2,084)	6,037
Stock acquisition rights	310,841	342,180
Total net assets	46,871,624	45,666,146
Total liabilities and net assets	55,286,315	53,556,788

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(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

(Thousands of yen)

	For the nine months ended March 31, 2021	For the nine months ended March 31, 2022
Net sales	7,306,483	10,507,998
Cost of sales	1,511,361	2,147,902
Gross profit	5,795,122	8,360,095
Selling, general and administrative expenses	7,232,338	10,440,825
Operating loss	(1,437,216)	(2,080,729)
Non-operating income		
Lecture fee and other income	400	238
Foreign exchange gains	482	-
Consumption taxes refund	2,560	617
Interest on refund of income taxes	-	5,950
Recoveries of written off receivables	-	1,057
Other	255	1,814
Total non-operating income	3,698	9,678
Non-operating expenses		
Interest expenses	-	1,960
Loss on investments in silent partnerships	474	481
Foreign exchange losses	-	17,745
Financing expenses	79,248	-
Loss on investments in investment partnerships	-	5,372
Other	-	3,131
Total non-operating expenses	79,722	28,690
Ordinary loss	(1,513,241)	(2,099,741)
Extraordinary income		
Gain on reversal of stock acquisition rights	151	-
Gain on sale of shares of subsidiaries and associates	-	8,670
Total extraordinary income	151	8,670
Extraordinary losses		
Loss on retirement of non-current assets	-	12
Impairment losses	-	132,967
Total extraordinary losses	-	132,980
Loss before income taxes	(1,513,090)	(2,224,050)
Income taxes - current	6,579	13,689
Total income taxes	6,579	13,689
Loss	(1,519,669)	(2,237,739)
Loss attributable to owners of parent	(1,519,669)	(2,237,739)

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Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	For the nine months ended March 31, 2021	For the nine months ended March 31, 2022
Loss	(1,519,669)	(2,237,739)
Other comprehensive income		
Valuation difference on available-for-sale securities	-	5,599
Foreign currency translation adjustment	-	2,522
Total other comprehensive income	-	8,121
Comprehensive income	(1,519,669)	(2,229,617)
Comprehensive income attributable to		
Owners of parent	(1,519,669)	(2,229,617)
Non-controlling interests	-	-

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(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Changes in accounting policies)

1. Adoption of "Accounting Standard for Revenue Recognition," etc.

The Company has adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant revised ASBJ regulations from the beginning of the first quarter of the fiscal year ending June 30, 2022 and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services.

The adoption of "Accounting Standard for Revenue Recognition," etc. is subject to the transitional treatment provided for in paragraph 84 of "Accounting Standard for Revenue Recognition." The cumulative effect of the retrospective adoption, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter was added to or deducted from the opening balance of retained earnings of the current first quarter, and thus the new accounting policy was applied from such opening balance.

This change in accounting policy has no impact on quarterly consolidated financial statements.

2. Adoption of "Accounting Standard for Fair Value Measurement," etc.

The Company has adopted "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and other standards from the beginning of the first quarter of the fiscal year ending June 30, 2022. The new accounting policies stipulated in the new standards are applied into the future in accordance with the transitional treatment provided for in paragraph 19 of "Accounting Standard for Fair Value Measurement" and paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, July 4, 2019).

This change in accounting policy has no impact on quarterly consolidated financial statements.

(Significant subsequent events)

(Wholly owned subsidiary through a simplified share exchange)

The Company resolved at the board of directors meeting held on May 9, 2022, to conduct a share exchange with cash consideration between the Company as the wholly owning parent company and Mikatus Inc. ("Mikatus") as a wholly owned subsidiary (the "Share Exchange"). The Company has also entered into an agreement with Mikatus, the Managing Shareholders of Mikatus (which shall individually or collectively mean, Japan Ventures I L.P., Arbor Venture Fund I L.P., AT-I Investment Limited Partnership, Digital Holdings, Inc., Salesforce Japan Co., Ltd., i-mercury Capital, Inc., AG Capital K.K., and SMBC Venture Capital NO.1 Investment Limited Partnership. The same shall apply hereinafter.) (the "Agreement").

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. Overview of the Share Exchange

(1) Acquired company name and description of business

Name : Mikatus Inc.

Description of business : Planning, development and sales of cloud service for tax accountants and for small and medium-sized enterprises

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(2) 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.

(3) Effective date of the Share Exchange

June 30, 2022 (scheduled)

(4) Method of the Share Exchange

The Share Exchange is an exchange of shares whereby the Company will become the wholly owning parent company and Mikatus will become the wholly owned subsidiary. The Share Exchange will be conducted after obtaining an approval for a share exchange agreement (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.

(5) 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)) (the “Consideration for Share Exchange”) to the shareholders of Mikatus as of the time (the “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.

(6) Grounds and reasons for the details of the allotment of shares in the Share Exchange

As described in “(2) 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 the 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, 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. 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.

According to Mikatus, it has appointed investment hub Corporation 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.

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2. Overview of Accounting Treatment

The accounting treatment in connection with the Share Exchange will be “acquisition” under Accounting Standard for Business Combinations, and goodwill will be recognized in the Company's consolidated financial statements. The amount of such goodwill is not determined at this time.