

## Consolidated Financial Results for the Fiscal Year Ended June 30, 2022 [Japanese GAAP]



### August 12, 2022

Company name: free K.K.  
 Listing: Tokyo Stock Exchange  
 Securities code: 4478  
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Scheduled date of ordinary general meeting of shareholders: September 29, 2022  
 Scheduled date to commence dividend payment: -  
 Scheduled date to file annual securities report: September 29, 2022  
 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 fiscal year ended June 30, 2022 (from July 1, 2021 to June 30, 2022)

#### (1) Consolidated operating results

(Percentages indicate year-on-year changes.)

Fiscal year ended	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	%
June 30, 2022	14,380	40.2	(2,250)	-	(3,042)	-	(3,085)	-	(11,609)	-
June 30, 2021	10,258	48.8	(2,301)	-	(2,441)	-	(2,719)	-	(2,756)	-

Notes: 1. Comprehensive income For the fiscal year ended June 30, 2022: ¥(11,598) million ( -%)  
 For the fiscal year ended June 30, 2021: ¥(2,758) 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	Return on shareholders' equity	Ordinary profit to total assets	Operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
June 30, 2022	(208.22)	-	(28.1)	(6.0)	(21.2)
June 30, 2021	(54.88)	-	(9.2)	(7.4)	(23.8)

Reference: Share of profit (loss) of entities accounted for using equity method  
 Fiscal year ended June 30, 2022: ¥-million  
 Fiscal year ended June 30, 2021: ¥-million

Note: Diluted earnings per share is not stated because basic loss per share was recorded.

#### (2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2022	47,413	36,428	76.1	636.68
June 30, 2021	55,286	46,871	84.2	849.99

Reference: Equity  
 As of June 30, 2022: ¥36,095 million  
 As of June 30, 2021: ¥46,560 million

**English Translation**

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**(3) Consolidated cash flows**

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
June 30, 2022	(1,069)	(4,483)	451	42,046
June 30, 2021	(192)	(3,180)	35,380	47,143

**2. Dividends**

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
June 30, 2021	–	0.00	–	0.00	0.00	–	–	–
June 30, 2022	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ending June 30, 2023(Forecast)	–	0.00	–	0.00	0.00		–	

**3. Consolidated earnings forecasts for the fiscal year ending June 30, 2023 (from July 1, 2022 to June 30, 2023)**

For the fiscal year ending June 30, 2023, we forecast net sales of 18,821 million yen (up 34.6% compared to net sales for Platform business(1) for the fiscal year ended June 30, 2022) backed by the expansion of customer base in the SaaS business, enhancement in customer value, etc,. On the other hand, adjusted operating loss(2) is expected to be 7,452 - 6,802 million yen due to investment for sustainable growth over the mid to long-term. Compared to consolidated financial results for the fiscal year ended June 30, 2022 (including the Shikaku Square sold on December 1, 2021), net sales for the fiscal year ending June 30, 2023 will increase by 30.9%.

For details, please refer to "1. Qualitative information regarding results for the period, (4) Explanation of consolidated earnings guidance and other forward-looking statements."

(Percentages indicate year-on-year changes.)

	Net sales		Adjusted operating profit	
	Millions of yen	%	Millions of yen	%
Fiscal year ending June 30, 2023	18,821	30.9	(7,452) ~(6,802)	△39.6 ~△36.1

Notes:1. Platform business: Business consisting of the integrated cloud ERP offering for small businesses and financial services, etc.

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.

**\* Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries : None resulting in the change in scope of consolidation)
- (2) Changes in accounting policies, changes in accounting estimates, and retrospective restatement
- Changes in accounting policies due to revisions to accounting standards and other : Applicable regulations
  - Changes in accounting policies other than a. above : None
  - Changes in accounting estimates : None
  - Retrospective restatement : None

- (3) Number of issued shares (Common stock)

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

Fiscal year ended June 30, 2022	56,695,564 shares
Fiscal year ended June 30, 2021	54,778,125 shares

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

Fiscal year ended June 30, 2022	2,431 shares
Fiscal year ended June 30, 2021	—

- c. Average number of outstanding shares during the period

Fiscal year ended June 30, 2022	55,753,339 shares
Fiscal year ended June 30, 2021	50,224,204 shares

**(Reference) Overview of non-consolidated financial results****Non-consolidated financial results for the fiscal year ended June 30, 2022  
(from July 1, 2021 to June 30, 2022)****(1) Non-consolidated operating results**

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended June 30, 2022	13,517	31.2	(1,624)	—	(1,666)	—	(11,527)	—
June 30, 2021	10,300	48.7	(2,296)	—	(2,540)	—	(2,884)	—

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
June 30, 2022	(206.76)	—
June 30, 2021	(57.43)	—

Note: Diluted earnings per share is not stated because basic loss per share was recorded.

**(2) Non-Consolidated financial position**

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2022	46,480	36,506	77.9	639.04
June 30, 2021	53,896	46,916	86.5	850.80

Reference: Equity

As of June 30, 2022:

¥36,229 million

As of June 30, 2021:

¥46,605 million

\* Financial results reports are exempt from audit 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.

**English Translation**

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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 26.3% (\*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."

In the current fiscal year, to realize our mission, we, the free Group, made investments to improve the functionality of our primary services, "free Accounting" and "free HR". To make the service available to more customers in the Mid segment (\*5), we have enhanced the fixed asset management and automatic invoice processing functions and released "free Expense Management" and "free Time Tracking Plus" to make it easier to introduce our services. Further, we have released "free Card Unlimited" to meet the growing financing needs of our customers, especially in the Mid segment. Also, to strengthen our network with accounting firms, the most critical partner in the small business, we made Mikatus Inc. a subsidiary, which provides A-SaaS, the crowd-based tax, accounting, and payroll system for accounting firms.

For the Platform business (\*6), ARR (\*7) increased by 33.6% year-on-year to 15,057 million yen at the end of the fiscal year, as well as the number of paying customers (\*8) by 29.4% to 379,404, and ARPU (\*9) by 3.3% to 39,686 yen. Moreover, for the Platform business in the fiscal year ended June 30, 2022, net sales increased by 36.4% to 13,987 million yen year-over-year and adjusted operating loss (\*10) was 2,343 million yen (2,301 million yen in the previous fiscal year). Considering the M&As conducted during the fiscal year (ARR from Mikatus Inc. is 715 million yen), ARR amounted to 15,772 million yen.

As a result, for the consolidated fiscal year under review, net sales increased by 40.2% year-over-year to 14,380 million yen, adjusted operating loss was 2,250 million yen (2,301 million yen in the previous fiscal year, and the same applies hereafter), operating loss was 3,042 million yen (2,441 million yen), ordinary loss was 3,085 million yen (2,719 million yen). As stated in the "Announcement Regarding Mid to Long-term Strategy and Booking of Impairment Loss Based on the Strategy" disclosed today, we recognized an impairment loss of 9,088 million yen. As a result, loss attributable to owners of parent resulted in 11,609 million yen (2,756 million yen).

#### Trends in ARR, Number of Paying Customers and ARPU

	Jun. 30, 2018	Jun. 30, 2019	Jun. 30, 2020	Jun. 30, 2021	Jun. 30, 2022
ARR (¥ million)	2,986	5,273	7,898	11,268	15,057
Number of paying customers	115,808	160,132	224,106	293,296	379,404
ARPU (¥)	25,786	32,930	35,246	38,419	39,686

Notes:1. 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.

2. Small Businesses refers to businesses with less than 1,000 employees as well as self-employed individuals.

3. Total annual spending of all potential customers assuming that all potential customers in Japan adopted free Accounting and free 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 free Accounting and free

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- HR (“Tax Statistics 2017” by National Tax Agency and “Economic Census for Business Activity, June 2016” by Ministry of Internal Affairs and Communications) × Annual base charge of free Accounting and free 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).
4. International Data Corporation(IDC), “Worldwide Public Cloud Services Spending Guide Software Add On: V2 2022.”
  5. Mid segment consists of corporations with 20 to 1,000 employees
  6. Figures represent the Group’s overall business, excluding the Shikaku Square business, operated by our consolidated subsidiary Sight Visit Inc., sold in December, 2021.
  7. 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).
  8. Refers to both self-employed and corporations that use our services.
  9. 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.
  10. 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.

## **(2) Explanation of financial position**

(Assets)

Total assets at the end of the period under review amounted to 47,413 million yen, a decrease of 7,873 million yen from the end of the previous fiscal year. This was primarily due to decreases in cash and deposits by 5,096 million yen and goodwill by 3,885 million yen.

(Liabilities)

Total liabilities at the end of the period under review came to 10,984 million yen, an increase of 2,569 million yen from the end of the previous fiscal year. This was mainly because of an increase of 1,396 million yen in unearned revenue.

(Net assets)

Total net assets at the end of the period under review were 36,428 million yen, a decrease of 10,443 million yen from the end of the previous fiscal year. This was chiefly owing to a decrease in retained earnings by 11,622 million yen resulting from the posting of loss attributable to owners of parent.

## **(3) Explanation of cash flows**

Cash and cash equivalent(hereinafter " cash " ) as of June 30, 2022 stood at 42,046 million yen. Net cash flows and factors associated therewith in the consolidated fiscal year are as stated below.

(Cash flows from operating activities)

Net cash used in operating activities amounted to 1,069 million yen. This was mainly due to loss before income taxes of 12,301 million yen, impairment losses of 9,221 million yen, and increase in unearned revenue of 1,737 million yen.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 4,483 million yen. This was mainly due to the spending of 1,894 million yen for purchase of shares of subsidiaries resulting in change in scope of consolidation and the spending of 1,605 million yen for purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 451 million yen. This was mainly due to proceeds from issuance of shares of 444 million yen.

#### **(4) Explanation of consolidated earnings guidance and other forward-looking statements**

Our SaaS business, which generates the highest proportion of our earnings, provides services to users in the subscription business model, in which earnings are built up through users' continuous subscription of services over time. Meanwhile, this business model is characterized by prior investment in development and acquisition of customers, which generally entails an operating loss in the short term.

For the fiscal year ending June 30, 2023, we forecast net sales of 18,821 million yen (up 34.6% compared to net sales in the fiscal year ended June 30, 2022 for Platform business(\*1), reflecting the expansion of customer base and improvement in customer value in the SaaS business and other factors. As for profit items, adjusted operating profit (\*2) is expected to be a loss ranging from 7,452 to 6,802 million yen (compared to a loss of 2,343 million yen in the fiscal year ended June 30, 2022) and adjusted operating profit margin is expected to be a loss ranging from 39.6% to 36.1% because of increases in development cost and customer acquisition cost as upfront investments for the mid-to-long term growth mentioned above.

Notes:1.Platform business: Business consisting of the integrated cloud ERP offering for small businesses and financial services, etc.

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.



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**2. Basic concept regarding selections of accounting standards**

The Group applies Japanese generally accepted accounting principles considering the comparability of consolidated financial statements from period to period.

**3. Consolidated financial statements and significant notes thereto****(1) Consolidated balance sheet**

(Thousands of yen)

	As of June 30, 2021	As of June 30, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	47,643,365	42,546,956
Accounts receivable - trade	1,314,115	1,691,129
Other	441,917	1,495,420
Allowance for doubtful accounts	(11,183)	(15,264)
<b>Total current assets</b>	<b>49,388,215</b>	<b>45,718,242</b>
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings	180,297	113,003
Accumulated depreciation	(107,701)	(113,003)
Facilities attached to buildings, net	72,596	—
Tools, furniture and fixtures	369,955	281,418
Accumulated depreciation	(173,822)	(281,418)
Tools, furniture and fixtures, net	196,133	—
<b>Total property, plant and equipment</b>	<b>268,729</b>	<b>—</b>
Intangible assets		
Goodwill	3,885,552	—
Software	871,346	—
Software in progress	57,748	—
Other	218,000	—
<b>Total intangible assets</b>	<b>5,032,647</b>	<b>—</b>
Investments and other assets		
Investment securities	340,008	518,939
Lease and guarantee deposits	236,147	1,040,603
Other	48,126	150,449
Allowance for doubtful accounts	(27,559)	(15,166)
<b>Total investments and other assets</b>	<b>596,722</b>	<b>1,694,826</b>
<b>Total non-current assets</b>	<b>5,898,100</b>	<b>1,694,826</b>
<b>Total assets</b>	<b>55,286,315</b>	<b>47,413,069</b>

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(Thousands of yen)

	As of June 30, 2021	As of June 30, 2022
<b>Liabilities</b>		
Current liabilities		
Current portion of long-term borrowings	62,610	—
Other payable	1,109,701	2,137,546
Accrued expenses	853,243	1,290,446
Income taxes payable	256,418	174,046
Unearned revenue	4,899,119	6,296,100
Provision for bonuses	39,306	131,405
Short-term borrowings	—	550,000
Other	484,855	186,926
<b>Total current liabilities</b>	<b>7,705,254</b>	<b>10,766,471</b>
Non-current liabilities		
Bonds payable	—	26,000
Long-term borrowings	229,436	—
Long-term other payable	480,000	10,000
Deposits received from members	—	136,933
Other	—	45,041
<b>Total non-current liabilities</b>	<b>709,436</b>	<b>217,974</b>
<b>Total liabilities</b>	<b>8,414,690</b>	<b>10,984,446</b>
Net assets		
Shareholders' equity		
Common stock	24,151,096	24,724,300
Capital surplus	40,057,134	40,630,339
Retained earnings (Accumulated deficit)	(17,645,362)	(29,268,227)
<b>Total shareholders' equity</b>	<b>46,562,867</b>	<b>36,086,413</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(2,084)	3,514
Foreign currency translation adjustment	—	5,228
<b>Total accumulated other comprehensive income</b>	<b>(2,084)</b>	<b>8,743</b>
Stock acquisition rights	310,841	333,466
<b>Total net assets</b>	<b>46,871,624</b>	<b>36,428,622</b>
<b>Total liabilities and net assets</b>	<b>55,286,315</b>	<b>47,413,069</b>

**(2) Consolidated statement of income and consolidated statement of comprehensive income**

## Consolidated statement of income

	(Thousands of yen)	
	Fiscal year ended June 30, 2021	Fiscal year ended June 30, 2022
Net sales	10,258,082	14,380,373
Cost of sales	2,100,024	2,840,832
Gross profit	8,158,057	11,539,541
Selling, general and administrative expenses	10,599,995	14,582,223
Operating loss	(2,441,937)	(3,042,681)
Non-operating income		
Lecture fee and other income	750	303
Consumption taxes refund	2,816	617
Interest on refund of income taxes	–	5,950
Recoveries of written off receivables	–	1,057
Other	645	3,234
Total non-operating income	4,212	11,162
Non-operating expenses		
Interest expenses	–	4,385
Loss on investments in silent partnerships	474	481
Foreign exchange losses	–	27,437
Financing expenses	94,248	–
Loss on investments in investment partnerships	19,223	5,372
Stock issuance costs	157,032	1,730
Loss on amortization of restricted stock remuneration	–	11,673
Other	10,437	3,282
Total non-operating expenses	281,416	54,363
Ordinary loss	(2,719,141)	(3,085,882)
Extraordinary income		
Gain on reversal of share acquisition rights	324	73
Gain on sale of shares of subsidiaries and associates	–	8,670
Total extraordinary income	324	8,743
Extraordinary losses		
Loss on retirement of non-current assets	827	2,663
Impairment losses	–	9,221,296
Loss on valuation of investment securities	27,756	–
Other	–	409
Total extraordinary losses	28,584	9,224,369
Loss before income taxes	(2,747,401)	(12,301,508)
Income taxes - current	8,775	16,709
Income taxes - deferred	–	(709,193)
Total income taxes	8,775	(692,484)
Loss	(2,756,177)	(11,609,024)
Loss attributable to owners of parent	(2,756,177)	(11,609,024)

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## Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended June 30, 2021	Fiscal year ended June 30, 2022
Loss	(2,756,177)	(11,609,024)
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,084)	5,599
Foreign currency translation adjustment	–	5,228
Total other comprehensive income	(2,084)	10,827
Comprehensive income	(2,758,262)	(11,598,196)
Comprehensive income attributable to		
Owners of parent	(2,758,262)	(11,598,196)
Non-controlling interests	–	–

**(3) Consolidated statement of changes in equity**

Fiscal year ended June 30, 2021

(Thousands of yen)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Total shareholders' equity
Balance at beginning of period	6,215,195	22,121,234	(14,889,185)	13,447,244
Changes during period				
Issuance of new shares	17,694,943	17,694,943		35,389,887
Exercise of stock acquisition rights	240,956	240,956		481,912
Change of scope of consolidation				—
Loss attributable to owners of parent			(2,756,177)	(2,756,177)
Net changes in items other than shareholders' equity				
Total changes during period	17,935,900	17,935,900	(2,756,177)	33,115,623
Balance at end of period	24,151,096	40,057,134	(17,645,362)	46,562,867

	Accumulated other comprehensive income			Stock acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	—	—	—	407,327	13,854,571
Changes during period					
Issuance of new shares					35,389,887
Exercise of stock acquisition rights					481,912
Change of scope of consolidation					—
Loss attributable to owners of parent					(2,756,177)
Net changes in items other than shareholders' equity	(2,084)	—	(2,084)	(96,485)	(98,570)
Total changes during period	(2,084)	—	(2,084)	(96,485)	33,017,052
Balance at end of period	(2,084)	—	(2,084)	310,841	46,871,624

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Fiscal year ended June 30, 2022

(Thousands of yen)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Total shareholders' equity
Balance at beginning of period	24,151,096	40,057,134	(17,645,362)	46,562,867
Changes during period				
Issuance of new shares	302,122	302,122		604,244
Exercise of stock acquisition rights	271,082	271,082		542,164
Change of scope of consolidation			(13,839)	(13,839)
Loss attributable to owners of parent			(11,609,024)	(11,609,024)
Net changes in items other than shareholders' equity				
Total changes during period	573,204	573,204	(11,622,864)	(10,476,454)
Balance at end of period	24,724,300	40,630,339	(29,268,227)	36,086,413

	Accumulated other comprehensive income			Stock acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	(2,084)	—	(2,084)	310,841	46,871,624
Changes during period					
Issuance of new shares					604,244
Exercise of stock acquisition rights					542,164
Change of scope of consolidation					(13,839)
Loss attributable to owners of parent					(11,609,024)
Net changes in items other than shareholders' equity	5,599	5,228	10,827	22,625	33,453
Total changes during period	5,599	5,228	10,827	22,625	(10,443,001)
Balance at end of period	3,514	5,228	8,743	333,466	36,428,622

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**(4) Consolidated statement of cash flows**

(Thousands of yen)

	Fiscal year ended June 30, 2021	Fiscal year ended June 30, 2022
<b>Cash flows from operating activities</b>		
Loss before income taxes	(2,747,401)	(12,301,508)
Depreciation	295,924	324,287
Amortization of goodwill	–	257,379
Impairment losses	–	9,221,296
Loss (gain) on sale of shares of subsidiaries and associates	–	(8,670)
Stock issuance costs	157,032	1,730
Financing expenses	94,248	–
Increase (decrease) in allowance for doubtful accounts	(3,445)	(4,241)
Increase (decrease) in provision for bonuses	39,306	96,205
Loss (gain) on valuation of investment securities	27,756	–
Loss (gain) on investments in investment partnerships	19,223	5,372
Loss (gain) on investments in silent partnerships	474	481
Gain on reversal of share acquisition rights	(324)	(73)
Decrease (increase) in trade receivables	(414,155)	(393,644)
Increase (decrease) in accounts payable - other	311,187	313,204
Increase (decrease) in accrued expenses	252,424	403,609
Increase (decrease) in unearned revenue	1,418,821	1,737,825
Loss on amortization of restricted stock remuneration	–	11,673
Other, net	364,550	(718,610)
<b>Subtotal</b>	<b>(184,376)</b>	<b>(1,053,681)</b>
Interest received	235	540
Interest paid	–	(4,687)
Income taxes paid	(8,392)	(11,828)
<b>Net cash provided by (used in) operating activities</b>	<b>(192,533)</b>	<b>(1,069,658)</b>



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	(Thousands of yen)	
	Fiscal year ended June 30, 2021	Fiscal year ended June 30, 2022
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(92,348)	(1,605,678)
Purchase of intangible assets	(371,589)	(493,171)
Purchase of investment securities	(390,330)	(189,999)
Payments of leasehold and guarantee deposits	–	(815,149)
Long-term loan advances	(150,000)	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,173,626)	(1,894,092)
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	–	500,000
Other, net	(2,944)	14,122
Net cash provided by (used in) investing activities	(3,180,839)	(4,483,968)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	–	300,000
Repayments of long-term borrowings	–	(292,046)
Proceeds from issuance of shares	35,472,907	444,035
Proceeds from issuance of share acquisition rights	1,648	–
Payments for financing expenses	(94,248)	–
Net cash provided by (used in) financing activities	35,380,307	451,989
Effect of exchange rate change on cash and cash equivalents	–	5,228
Net increase (decrease) in cash and cash equivalents	32,006,934	(5,096,409)
Cash and cash equivalents at beginning of period	15,136,430	47,143,365
Cash and cash equivalents at end of period	47,143,365	42,046,956

## **(5) Notes to consolidated financial statements (Notes on going concern assumption)**

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 fiscal year ended 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 fiscal year ended June 30, 2022 was added to or deducted from the opening balance of retained earnings of the fiscal year ended June 30, 2022, and thus the new accounting policy was applied from such opening balance.

This change in accounting policy has no impact on consolidated financial statements and per share information

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 fiscal year ended 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 consolidated financial statements.

### **(Business combinations)**

(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 has implemented 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

(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 freee 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 freee Group will increase its share in accounting firms and accelerate the penetration of its services into its clients, i.e. small businesses.

(3) Acquisition date

June 30, 2022.

(4) Legal form of the business combination

Exchange of shares through a simplified share exchange.

(5) Acquired company name after the business combination

Not changed.

(6) 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) (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 agreed to convert all of their class shares into common shares of Mikatus by the time separately agreed with the Company.

In addition, Mikatus has cancelled, 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 held by the day immediately preceding the effective date of the Share Exchange.

(7) 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 was one of the Managing Shareholders of Mikatus, was mainly involved in the selection of the purchaser of Mikatus shares and in the negotiation with the Company concerning the Consideration for Share

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Exchange, and that the Managing Shareholders of Mikatus would execute the Agreement with the Company, in order to ensure the fairness of the Share Exchange, the Company appointed Anderson Mori & Tomotsune as its legal advisor for the Share Exchange, and appointed AIPartners, Inc. as its financial advisor, and received advice from them on the methods and processes of decision-making, including the procedures for the Share Exchange.

According to Mikatus, it 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.

2. The period of the operating results of the acquired company included in consolidated financial statements

The operating results of the acquired company are not included in the consolidated financial statements because only the balance sheet is consolidated for the current fiscal year.

3. The acquisition costs of the acquired company, and the breakdown by type of consideration

The consideration : 2,075,247 thousands yen in cash and deposits

The acquisition costs : 2,075,247 thousands yen

4. The details and amount of major expenses related to acquisition

Advisory fees, etc. : 30,756 thousands yen

5. The amount of goodwill that occurred, the cause for the occurrence, the amortization method, and the amortization period

(1) The amount of goodwill that occurred

1,107,701 thousands yen

(2) The cause for the occurrence

Mainly because of the excess earning power expected from future business development of Mikatus Inc.

(3) The amortization method and the period

Straight-line method for 10 years

The entire amount of goodwill has been impaired.

6. The amount allocated to intangible assets other than goodwill, the breakdown by major type, and the amortization period by major type

(1) The amount allocated to intangible assets other than goodwill

2,318,439 thousands yen

(2) The breakdown by major type

Customer-related assets

(3) The amortization period by major type

12 years

The entire amount of Customer-related assets have been impaired.

7. The amount of assets accepted and liabilities assumed on the date of the business combination, and the major breakdown thereof

Current assets : 220,441 thousands yen

Non-current assets : 4,940 thousands yen

Total assets : 225,381 thousands yen

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Current liabilities : 703,435 thousands yen

Non-current liabilities : 162,933 thousands yen

Total liabilities : 866,368 thousands yen

8. The estimated amount of the impact on the consolidated statement of income for the current fiscal year, assuming that the business combination had been completed at the beginning of the current fiscal year, and its calculation method

The estimated amount of the impact is omitted as it is not material

**(Segment information)**

Fiscal year ended June 30, 2021 (from July 1, 2020 to June 30, 2021)

Segment information, etc. is omitted as the Group operates a major segment of the platform business and does not have monetary significance of other segments.

Fiscal year ended June 30, 2022 (from July 1, 2021 to June 30, 2022)

Segment information, etc. is omitted as the Group operates a major segment of the platform business and does not have monetary significance of other segments.

**(Per share information)**

	Fiscal year ended June 30, 2021 (from July 1, 2020 to June 30, 2021)	Fiscal year ended June 30, 2022 (from July 1, 2021 to June 30, 2022)
Net assets per share	849.99	636.68
Basic earnings (loss) per share	(54.88)	(208.22)

Notes: 1. Information on diluted earnings per share for the fiscal year ended June 30, 2021 and 2022 are omitted since the recorded figure was a net loss in spite of the existence of dilutive shares.

2. Basis for calculation of basic loss per share is as follows:

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	Fiscal year ended June 30, 2021 (from July 1, 2020 to June 30,2021)	Fiscal year ended June 30, 2022 (from July 1, 2021 to June 30,2022)
Profit (loss) attributable to owners of parent (Thousands of yen)	(2,756,177)	(11,609,024)
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit (loss) attributable to owners of parent related to common shares (Thousands of yen)	(2,756,177)	(11,609,024)
Average number of common shares outstanding during the period (Shares)	50,224,204	55,753,339
Overview of dilutive shares that are not included in the calculation of diluted earnings per share as they have no dilutive effects	3,689,809 shares of stock acquisition rights (21 types of stock acquisition rights)	1,839,756 shares of stock acquisition rights (21 types of stock acquisition rights)

**(Significant subsequent events)**

Not applicable.