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Announcement Regarding Mid to Long-term Strategy and Booking of Impairment Loss Based on the Strategy

freee K.K. (the “Company”) announces that the Board of Directors approved the Company’s mid to long-term strategy by a resolution at its meeting held today.

1. Mid to Long-term Strategy

(1) Background of Formulation of Mid to Long-term Strategy

The Company is committed to its mission, “Empower Small Businesses to Take Center Stage,” and has been providing cloud ERP services for small businesses and working to help them to increase productivity and improve business management, with the aim of creating an “Integrated Management Platform for Everyone to Manage Business Freely.” We believe that small businesses have the ability to act quickly and boldly to put ideas into action, positioning themselves to achieve innovation in various areas, push big businesses to evolve and inspire new movements and ideas in society.

Meanwhile, in Japan, where the penetration rate of cloud-based accounting software is low, many small businesses have yet to use accounting software*1. Moreover, the penetration rate of cloud-based accounting software among the small businesses that use accounting software stands at only 26.3%*2. Despite these circumstances, we expect that going forward, more small businesses will transition to cloud for their operations due to the amendment of the Electronic Books Maintenance Act, the introduction of the Invoice System for tax credit for consumption tax, and other factors. Taking advantage of our position as a company holding the largest share in the cloud-based accounting software market,*3 the Company will make strategic investments over the period from FY2023 to FY2025, which the Company regards as a

“period for investments aimed at achieving sustainable mid to long-term growth”—and strive to further enhance the Company’s corporate value.

(2) Overview of Mid to Long-term Strategy

Under the mid to long-term strategy, the Company aims to solidify the Company’s customer base in the small business segment in Japan, where the penetration rate of cloud-based accounting software is expected to increase, in order to realize “Integrated Management Platform.” The Company will further enhance integrated solutions for customers, which constitute its competitive advantage, for the Company’s core products, free Accounting and free HR. In addition, the Company will invest for future growth in the Company’s new products, such as free Sign and free Card Unlimited, and other initiatives. Through these initiatives, the Company will strive to achieve the following targets:

Strategic Targets

- The number of corporate paying customers (at the end of FY2025): 250,000 customers
- The number of paying customers (at the end of FY2025): 700,000 customers
- Net Revenue Retention Rate of corporate customers (at the end of FY2027): 110%+

Financial Outlook

- Revenue (FY2027): JPY 50Bn+
- Adjusted operating profit margin (FY2025): 0%

*1 MM Research Institute, Ltd.’s August 2017 survey on the status of adoption of cloud accounting software by corporations, MM Research Institute, Ltd.’s April 2022 survey on the status of adoption of cloud accounting software by self-employed

*2 International Data Corporation (IDC), Worldwide Public Cloud Services Spending Guide Software Add On: V2 2022.

*3 LeadPlus, “Industry Analysis Through Keywords Series: Cloud Accounting Software” (August 2022).

2. Booking of Extraordinary Loss

(1) Description of Impairment Loss on Non-Current Assets (Extraordinary Loss)

Since the establishment of the Company, in order to help small businesses to increase productivity and improve business management, the Company has offered a wide range of cloud-native services, such as free Accounting and free HR, and also worked together with companies that have joined the free Group, including Sight Visit Inc. and Mikatus Inc., thereby achieving consistent growth over the years. Under the above mid to long-term strategy, the first year of which is the fiscal year ending June 30, 2023, the

Company assumes that a positive adjusted operating profit will be achieved for FY2025, while defining the period from the fiscal year ending June 30, 2023 as a time to accelerate investment to build a foundation for mid to long-term growth.

Based on this mid to long-term strategy, the Company recognized an impairment loss of 9,088 million yen in accordance with the “Accounting Standard for Impairment of Non-current Assets” under the Japanese GAAP.

This is a result of comparing the cash flows assumed to be generated under the mid to long-term strategy with the book value of the entire non-current assets, with the estimation period of the remaining lifetime of the Company’s goodwill and other non-current assets, in accordance with the above Accounting Standard, while each of the Company’s businesses is progressing according to plan. As the Company develops and provides services for small businesses with the aim of creating an “Integrated Management Platform for Everyone to Manage Business Freely,” the Company defines the entire Platform business as a single unit for grouping of assets (business unit) for impairment testing. Accordingly, in this impairment test, all non-current assets including goodwill associated with M&As are assessed, and the impairment of goodwill is not attributable to the performance of any individual businesses.

In the non-consolidated financial results for the fiscal year ended June 30, 2022, a loss of the value of shares of affiliated companies of 5,245 million yen, provision of allowance for doubtful accounts of 699 million yen, and provision for loss on business of subsidiaries and associates of 637 million yen are recognized as an extraordinary loss.

(2) Effects on Financial Results

The effects of the impairment are reflected in “Consolidated Financial Results for the Fiscal Year Ended June 30, 2022 [Japanese GAAP]” disclosed today.

(3) Future Outlook

As the Company accelerates investment to build a foundation for mid to long-term growth, all expenditures for software development are expected to be treated as research and development costs. In addition, for non-current assets, after they are recognized as assets, impairment losses may be recognized on them for every fiscal quarter. These factors have a certain impact on adjusted operating profit for the fiscal year ending June 30, 2023, which is reflected in the consolidated financial results guidance for the fiscal year ending June 30, 2023 disclosed today.

Meanwhile, the above accounting treatment will have no impact on cash flows.

For details about the mid to long-term strategy and the impairment loss, please refer to “Presentation Materials for Q4 FY2022.6” disclosed today.