

Consolidated Financial Results
for the Three Months Ended September 30, 2022
[Japanese GAAP]



November 14, 2022

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 Listing: Tokyo Stock Exchange
 Securities code: 4478
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Scheduled date to file quarterly securities report: November 14, 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 three months of the fiscal year ending June 30, 2023

(from July 1, 2022 to September 30, 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	%
Three months ended September 30, 2022	4,238	25.0	(1,042)	-	(1,171)	-	(1,197)	-	(3,266)	-
September 30, 2021	3,392	52.5	(329)	-	(501)	-	(495)	-	(500)	-

Notes: 1. Comprehensive income Three months ended September 30, 2022: ¥(3,199) million (-%)
 Three months ended September 30, 2021: ¥(500) 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
Three months ended September 30, 2022	Yen (57.47)	Yen -
September 30, 2021	Yen (9.10)	Yen -

Note: 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 September 30, 2022	Millions of yen 45,689	Millions of yen 33,322	% 72.2
June 30, 2022	47,413	36,428	76.1

Reference: Equity

As of September 30, 2022: ¥ 32,986 million
 As of June 30, 2022: ¥ 36,095 million

English Translation

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2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended June 30, 2022	Yen —	Yen 0.0	Yen —	Yen 0.0	Yen 0.0
Fiscal year ending June 30, 2023	—				
Fiscal year ending June 30, 2023 (Forecast)		0.0	—	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, 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(2) 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(3) 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, (3) 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)	— —

Notes: 1. Revisions to the earnings forecasts most recently announced: None

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

3. 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) 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 : None regulations

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

c. Changes in accounting estimates : None

d. Retrospective restatement : None

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(4) Number of issued shares (Common stock)

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

As of September 30, 2022	56,887,152 shares
As of June 30, 2022	56,695,564 shares

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

As of September 30, 2022	2,227 shares
As of June 30, 2022	2,431 shares

c. Average number of outstanding shares during the period

Three months ended September 30, 2022	56,832,713 shares
Three months ended September 30, 2021	54,961,601 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 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 first quarter of the 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." In preparation for the Invoice System to be introduced in October 2023, we held seminars related to the Invoice System, released the "free Invoice Registration Navigation System," and implemented functional enhancements in "free Accounting." In addition, we have newly released "free Order Management" for centralized management of order management operations.

As a result of initiatives including the above, as of the end of the first quarter, for Platform business(*5), ARR(*6) increased year-over-year by 36.3% to 16,475 million yen, the number of paying customers(*7) by 23.5% to 386,655, and ARPU(*8) by 10.4% to 42,611 yen. Moreover, for the first three months of Platform business, net sales increased by 34.5% to 4,238 million yen year-over-year and adjusted operating loss(*9) was 1,042 million yen (398 million yen in the same period of the previous fiscal year).

As a result, for the first three months of consolidated fiscal year under review, net sales increased by 25.0% year-over-year to 4,238 million yen, adjusted operating loss was 1,042 million yen (329 million yen in the same period of the previous fiscal year, and the same applies hereafter), operating loss was 1,171 million yen (501 million yen), ordinary loss was 1,197 million yen (495 million yen). Loss attributable to owners of parent resulted in 3,266 million yen (500 million yen in the previous fiscal year).

Trends in ARR, Number of Paying Customers and ARPU

	Jun. 30, 2020	Jun. 30, 2021	Jun. 30, 2022	Sep. 30, 2021	Sep. 30, 2022
ARR (¥ million)	7,898	11,268	15,057	12,085	16,475
Number of paying customers	224,106	293,296	379,404	313,206	386,655
ARPU (¥)	35,246	38,419	39,686	38,586	42,611

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 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 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. Platform business consists of the integrated cloud ERP offering for small businesses and financial services, etc. In the fiscal year ended June 30, 2022, it represented the Group's overall business, excluding the "Shikaku Square"

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- business, sold in December 2021, provided by consolidated subsidiary Site Visit Inc. (now free Sign Inc.)
6. 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).
 7. Refers to both self-employed and corporations that use our services.
 8. 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.
 9. 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 45,689 million yen, a decrease of 1,723 million yen from the end of the previous fiscal year. This was primarily due to decreases in cash and deposits by 2,105 million yen.

(Liabilities)

Total liabilities at the end of the period under review came to 12,367 million yen, an increase of 1,382 million yen from the end of the previous fiscal year. This was mainly because of an increase of 1,528 million yen in asset retirement obligation.

(Net assets)

Total net assets at the end of the period under review were 33,322 million yen, a decrease of 3,106 million yen from the end of the previous fiscal year. This was chiefly owing to a decrease in retained earnings by 3,266 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 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 for Platform business) 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. Quarterly consolidated financial statements and significant notes thereto**(1) Quarterly consolidated balance sheet**

(Thousands of yen)

	As of June 30, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	42,546,956	40,441,468
Accounts receivable - trade	1,691,129	1,733,223
Other	1,495,420	1,899,030
Allowance for doubtful accounts	(15,264)	(13,850)
Total current assets	45,718,242	44,059,871
Non-current assets		
Investments and other assets		
Investment securities	518,939	569,235
Lease and guarantee deposits	1,040,603	961,856
Other	150,449	118,517
Allowance for doubtful accounts	(15,166)	(19,772)
Total investments and other assets	1,694,826	1,629,837
Total non-current assets	1,694,826	1,629,837
Total assets	47,413,069	45,689,709

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(Thousands of yen)

	As of June 30, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Other payable	2,137,546	1,636,301
Accrued expenses	1,290,446	1,614,141
Income taxes payable	174,046	85,921
Unearned revenue	6,296,100	6,471,886
Provision for bonuses	131,405	83,841
Short-term borrowings	550,000	570,000
Other	186,926	131,471
Total current liabilities	10,766,471	10,593,564
Non-current liabilities		
Bonds payable	26,000	26,000
Asset retirement obligation	–	1,528,599
Long-term other payable	10,000	10,000
Provision for stock-based compensation	11,248	11,622
Deposits received from members	136,933	134,081
Other	33,793	63,230
Total non-current liabilities	217,974	1,773,533
Total liabilities	10,984,446	12,367,098
Net assets		
Shareholders' equity		
Common stock	24,724,300	24,769,990
Capital surplus	40,630,339	40,676,028
Retained earnings (Accumulated deficit)	(29,268,227)	(32,534,637)
Treasury stock	–	(281)
Total shareholders' equity	36,086,413	32,911,100
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,514	2,438
Deferred gains or losses on hedges	–	66,466
Foreign currency translation adjustment	5,228	6,940
Total accumulated other comprehensive income	8,743	75,845
Stock acquisition rights	333,466	335,664
Total net assets	36,428,622	33,322,610
Total liabilities and net assets	47,413,069	45,689,709

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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 three months ended September 30, 2021	For the three months ended September 30, 2022
Net sales	3,392,321	4,238,841
Cost of sales	719,598	703,456
Gross profit	2,672,722	3,535,384
Selling, general and administrative expenses	3,173,943	4,707,157
Operating loss	(501,220)	(1,171,773)
Non-operating income		
Lecture fee and other income	170	330
Consumption taxes refund	617	-
Interest on refund of income taxes	5,950	-
Recoveries of written off receivables	1,057	-
Other	356	1,207
Total non-operating income	8,151	1,537
Non-operating expenses		
Interest expenses	912	4,548
Loss on investments in silent partnerships	277	-
Foreign exchange losses	1,313	8,157
Loss on amortization of restricted stock remuneration	-	9,513
Commission paid	-	4,137
Other	46	518
Total non-operating expenses	2,550	26,876
Ordinary Loss	(495,618)	(1,197,112)
Extraordinary income		
Gain on reversal of amortization of leasehold deposits	-	9,302
Other	-	146
Total extraordinary income	-	9,448
Extraordinary losses		
Impairment losses	-	1,956,329
Office relocation expenses	-	118,186
Other	-	31
Total extraordinary losses	-	2,074,547
Loss before income taxes	(495,618)	(3,262,211)
Income taxes - current	4,708	5,157
Income taxes - deferred	-	(958)
Total income taxes	4,708	4,199
Loss	(500,327)	(3,266,410)
Loss attributable to owners of parent	(500,327)	(3,266,410)

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Quarterly consolidated statement of comprehensive income

	(Thousands of yen)	
	For the three months ended September 30, 2021	For the three months ended September 30, 2022
Loss	(500,327)	(3,266,410)
Other comprehensive income		
Valuation difference on available-for-sale securities	–	(1,076)
Deferred gains or losses on hedges	–	66,466
Foreign currency translation adjustment	–	1,712
Total other comprehensive income	–	67,102
Comprehensive income	(500,327)	(3,199,307)
Comprehensive income attributable to		
Owners of parent	(500,327)	(3,199,307)
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.

(Business combinations)

(Merger of a consolidated subsidiary)

The Company resolved at the board of directors meeting held on August 24, 2022, to implement an absorption-type merger of Mikatus Inc., a wholly-owned subsidiary (the "Merger").

1. Overview of the Merger

(1) Merged 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) Effective date of the Merger

September 30, 2022

(3) Legal form of the business combination

The Merger will be an absorption-type merger with the Company as the merging company. Mikatus Inc. will be dissolved.

(4) Company name after the business combination

freee K.K.

(5) Purpose of the Merger

The purpose of the Merger is to further improve management efficiency by consolidating management resources and integrating operations within the Company.

2. Overview of accounting treatment

Accounting treatment was based on "Accounting Standard for Business Combinations" (ASBJ Statement No.21, January 16, 2019) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, January 16, 2019) as a business combination under common control.

(Significant subsequent events)

Not applicable.