

Consolidated Financial Results for the Six Months Ended December 31, 2022 [Japanese GAAP]



February 14, 2023

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 Listing: Tokyo Stock Exchange
 Securities code: 4478
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Scheduled date to file quarterly securities report: February 14, 2023
 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 six months of the fiscal year ending June 30, 2023 (from July 1, 2022 to December 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	%
Six months ended										
December 31, 2022	8,718	27.2	(2,324)	-	(2,623)	-	(2,658)	-	(4,886)	-
December 31, 2021	6,856	48.5	(849)	-	(1,203)	-	(1,200)	-	(1,334)	-

Notes: 1. Comprehensive income Six months ended December 31, 2022: ¥(4,888) million (-%)
 Six months ended December 31, 2021: ¥(1,333) 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
Six months ended	Yen	Yen
December 31, 2022	(85.82)	-
December 31, 2021	(24.20)	-

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	Millions of yen	Millions of yen	%
December 31, 2022	44,599	32,023	71.1
June 30, 2022	47,413	36,428	76.1

Reference: Equity

As of December 31, 2022: ¥ 31,703 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	—	0.0			
Fiscal year ending June 30, 2023 (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, 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 is forecasted to 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)	— —

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 regulations : None
 - 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 December 31, 2022	57,167,857 shares
As of June 30, 2022	56,695,564 shares

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

As of December 31, 2022	3,910 shares
As of June 30, 2022	2,431 shares

c. Average number of outstanding shares during the period

Six months ended December 31, 2022	56,938,604 shares
Six months ended December 31, 2021	55,130,499 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 second 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 released "free Invoice" which enables customers to create invoices compliant with the Invoice System for free.

As a result of initiatives including the above, as of the end of the second quarter, for Platform business (*5), ARR (*6) increased year-over-year by 36.8% to 17,629 million yen, the number of paying customers (*7) by 22.1% to 399,420, and ARPU (*8) by 12.0% to 44,138 yen. Moreover, for the first six months of Platform business, net sales increased by 34.9% to 8,718 million yen year-over-year and adjusted operating loss (*9) was 2,324 million yen (942 million yen in the same period of the previous fiscal year).

As a result, for the first six months of consolidated fiscal year under review, net sales increased by 27.2% year-over-year to 8,718 million yen, adjusted operating loss was 2,324 million yen (849 million yen in the same period of the previous fiscal year, and the same applies hereafter), operating loss was 2,623 million yen (1,203 million yen), ordinary loss was 2,658 million yen (1,200 million yen). Loss attributable to owners of parent resulted in 4,886 million yen (1,334 million yen).

Trends in ARR, Number of Paying Customers and ARPU

	Jun. 30, 2020	Jun. 30, 2021	Jun. 30, 2022	Dec. 31, 2021	Dec. 31, 2022
ARR (¥ million)	7,898	11,268	15,057	12,883	17,629
Number of paying customers	224,106	293,296	379,404	327,034	399,420
ARPU (¥)	35,246	38,419	39,686	39,395	44,138

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" 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).

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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 44,599 million yen, a decrease of 2,813 million yen from the end of the previous fiscal year. This was primarily due to decreases in cash and deposits by 3,259 million yen.

(Liabilities)

Total liabilities at the end of the period under review came to 12,575 million yen, an increase of 1,591 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 32,023 million yen, a decrease of 4,404 million yen from the end of the previous fiscal year. This was chiefly owing to a decrease in retained earnings by 4,886 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 December 31, 2022 stood at 38,787 million yen. Net cash flows and factors associated therewith for six months ended December 31, 2022 are as stated below.

(Cash flows from operating activities)

Net cash used in operating activities amounted to 2,489 million yen. This was mainly due to loss before income taxes of 4,878 million yen, impairment losses of 2,065 million, and an increase in accrued expenses of 721 million yen.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 1,048 million yen. This was mainly due to the spending of 537 million yen for purchase of shares of subsidiaries resulting in change in scope of consolidation and the spending of 490 million yen for purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 278 million yen. This was mainly due to proceeds from issuance of common stocks of 104 million yen and net increase in short-term borrowings of 200 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

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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 December 31, 2022
Assets		
Current assets		
Cash and deposits	42,546,956	39,287,048
Accounts receivable - trade	1,691,129	1,592,872
Other	1,495,420	2,181,356
Allowance for doubtful accounts	(15,264)	(14,636)
Total current assets	45,718,242	43,046,642
Non-current assets		
Investments and other assets		
Investment securities	518,939	519,238
Lease and guarantee deposits	1,040,603	869,370
Other	150,449	182,600
Allowance for doubtful accounts	(15,166)	(18,415)
Total investments and other assets	1,694,826	1,552,793
Total non-current assets	1,694,826	1,552,793
Total assets	47,413,069	44,599,436

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(Thousands of yen)

	As of June 30, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Other payable	2,137,546	1,213,702
Accrued expenses	1,290,446	1,970,230
Income taxes payable	174,046	168,698
Unearned revenue	6,296,100	6,339,480
Provision for bonuses	131,405	167,169
Short-term borrowings	550,000	750,000
Other	186,926	242,808
Total current liabilities	10,766,471	10,852,090
Non-current liabilities		
Bonds payable	26,000	–
Asset retirement obligation	–	1,528,936
Long-term other payable	10,000	10,000
Provision for stock-based compensation	11,248	18,244
Deposits received from members	136,933	132,426
Other	33,793	33,896
Total non-current liabilities	217,974	1,723,503
Total liabilities	10,984,446	12,575,593
Net assets		
Shareholders' equity		
Common stock	24,724,300	24,972,794
Capital surplus	40,630,339	40,878,832
Retained earnings (Accumulated deficit)	(29,268,227)	(34,154,765)
Treasury stock	–	(281)
Total shareholders' equity	36,086,413	31,696,580
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,514	2,438
Foreign currency translation adjustment	5,228	4,743
Total accumulated other comprehensive income	8,743	7,182
Stock acquisition rights	333,466	320,079
Total net assets	36,428,622	32,023,842
Total liabilities and net assets	47,413,069	44,599,436

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

Quarterly consolidated statement of income

	(Thousands of yen)	
	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Net sales	6,856,371	8,718,255
Cost of sales	1,442,940	1,397,116
Gross profit	5,413,430	7,321,138
Selling, general and administrative expenses	6,617,358	9,944,280
Operating loss	(1,203,927)	(2,623,141)
Non-operating income		
Lecture fee and other income	200	560
Consumption taxes refund	617	-
Interest on refund of income taxes	5,950	1,081
Recoveries of written off receivables	1,057	-
Other	1,448	2,060
Total non-operating income	9,273	3,701
Non-operating expenses		
Interest expenses	1,339	8,182
Loss on investments in silent partnerships	277	-
Foreign exchange losses	4,271	10,570
Loss on amortization of restricted stock remuneration	-	10,853
Commission paid	-	8,027
Other	394	1,401
Total non-operating expenses	6,282	39,035
Ordinary Loss	(1,200,936)	(2,658,474)
Extraordinary income		
Gain on reversal of amortization of leasehold deposits	-	9,302
Gain on sale of shares of subsidiaries and associates	8,670	-
Other	-	146
Total extraordinary income	8,670	9,448
Extraordinary losses		
Impairment losses	132,967	2,065,037
Loss on valuation of investment securities	-	46,247
Office relocation expenses	-	118,186
Other	11	-
Total extraordinary losses	132,979	2,229,471
Loss before income taxes	(1,325,245)	(4,878,497)
Income taxes - current	9,015	9,002
Income taxes - deferred	-	(961)
Total income taxes	9,015	8,040
Loss	(1,334,260)	(4,886,538)
Loss attributable to owners of parent	(1,334,260)	(4,886,538)

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Quarterly consolidated statement of comprehensive income

	(Thousands of yen)	
	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Loss	(1,334,260)	(4,886,538)
Other comprehensive income		
Valuation difference on available-for-sale securities	–	(1,076)
Foreign currency translation adjustment	595	(484)
Total other comprehensive income	595	(1,560)
Comprehensive income	(1,333,664)	(4,888,098)
Comprehensive income attributable to		
Owners of parent	(1,333,664)	(4,888,098)
Non-controlling interests	–	–

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(3) Quarterly Consolidated statement of cash flows

	(Thousands of yen)	
	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Cash flows from operating activities		
Loss before income taxes	(1,325,245)	(4,878,497)
Depreciation	226,468	–
Amortization of goodwill	136,774	–
Impairment losses	132,967	2,065,037
Loss (gain) on sale of shares of subsidiaries and associates	(8,670)	–
Office relocation expenses	–	118,186
Loss on amortization of restricted stock remuneration	–	10,853
Increase (decrease) in allowance for doubtful accounts	(8,828)	2,621
Increase (decrease) in provision for bonuses	49,052	35,763
Loss (gain) on valuation of investment securities	–	46,247
Decrease (increase) in trade receivables	41,518	95,006
Decrease (increase) in prepaid expences	(653,148)	(323,888)
Increase (decrease) in other payables	(73,041)	(412,330)
Increase (decrease) in accrued expenses	91,033	721,262
Increase (decrease) in unearned revenue	113,594	43,380
Other, net	(366,545)	46,479
Subtotal	(1,644,070)	(2,429,877)
Interest received	77	93
Interest paid	(1,339)	(8,182)
Income taxes paid	(11,828)	(15,466)
Payments for office relocation related expenses	–	(35,920)
Net cash provided by (used in) operating activities	(1,657,159)	(2,489,353)

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	(Thousands of yen)	
	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Cash flows from investing activities		
Purchase of property, plant and equipment	(61,325)	(490,796)
Purchase of intangible assets	(216,638)	(41,477)
Payments for transfer of businesses	–	(20,000)
Purchase of investment securities	(104,999)	(50,296)
Payments of leasehold and guarantee deposits	(802,978)	(16,430)
Proceeds from collection of leasehold and guarantee deposits	–	103,604
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(692,386)	(537,077)
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	500,000	–
Other, net	7,741	3,750
Net cash provided by (used in) investing activities	(1,370,587)	(1,048,724)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	–	200,000
Repayments of long-term borrowings	(27,584)	–
Redemption of bonds	–	(26,000)
Proceeds from issuance of common stock	207,559	104,936
Purchase of treasury stock	–	(281)
Net cash provided by (used in) financing activities	179,975	278,654
Effect of exchange rate change on cash and cash equivalents	595	(484)
Net increase (decrease) in cash and cash equivalents	(2,847,176)	(3,259,907)
Cash and cash equivalents at beginning of period	47,143,365	42,046,956
Cash and cash equivalents at end of period	44,296,189	38,787,048

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(4) 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.

(Significant subsequent events)

Not applicable.