

English Translation

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**Consolidated Financial Results
for the Nine Months Ended March 31, 2023
[Japanese GAAP]**



May 15, 2023

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
 Inquiries: Masahiro Hara, VP of Finance
 TEL: +81-3-6630-3231

Scheduled date to file quarterly securities report: May 15, 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 nine months of the fiscal year ending June 30, 2023
(from July 1, 2022 to March 31, 2023)**

(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, 2023	13,813	31.5	(4,205)	-	(4,703)	-	(4,757)	-	(7,843)	-
March 31, 2022	10,507	43.8	(1,526)	-	(2,080)	-	(2,099)	-	(2,237)	-

Notes: 1. Comprehensive income Nine months ended March 31, 2023: ¥(7,827) million (-%)

Nine months ended March 31, 2022: ¥(2,229) 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, 2023	(137.48)	-
March 31, 2022	(40.33)	-

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	%
March 31, 2023	42,954	29,209	67.3
June 30, 2022	47,413	36,428	76.1

Reference: Equity

As of March 31, 2023: ¥28,896 million

As of June 30, 2022: ¥36,095 million

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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, (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 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 March 31, 2023	57,365,554 shares
As of June 30, 2022	56,695,564 shares

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

As of March 31, 2023	10,120 shares
As of June 30, 2022	2,431 shares

c. Average number of outstanding shares during the period

Nine months ended March 31, 2023	57,052,515 shares
Nine months ended March 31, 2022	55,482,980 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 third 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." To expand services in response to the Invoice System to be introduced in October 2023, we acquired and consolidated sweep Inc. which offers products that automate receiving and saving invoices, journal entries and bank transfers.

As a result of initiatives including the above, as of the end of the third quarter, for Platform business (*5), ARR (*6) increased year-over-year by 37.1% to 19,983 million yen, the number of paying customers (*7) by 20.6% to 464,157, and ARPU (*8) by 13.7% to 43,052 yen. Moreover, for the first nine months of Platform business, net sales increased by 36.6% to 13,813 million yen year-over-year and adjusted operating loss (*9) was 4,205 million yen (1,619 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 31.5% year-over-year to 13,813 million yen, adjusted operating loss was 4,205 million yen (1,526 million yen in the same period of the previous fiscal year, and the same applies hereafter), operating loss was 4,703 million yen (2,080 million yen), ordinary loss was 4,757 million yen (2,099 million yen). Loss attributable to owners of parent resulted in 7,843 million yen (2,237 million yen).

Trends in ARR, Number of Paying Customers and ARPU

	Jun. 30, 2020	Jun. 30, 2021	Jun. 30, 2022	Mar. 31, 2022	Mar. 31, 2023
ARR (¥ million)	7,898	11,268	15,057	14,571	19,983
Number of paying customers	224,106	293,296	379,404	384,871	464,157
ARPU (¥)	35,246	38,419	39,686	37,861	43,052

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.)

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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 42,954 million yen, a decrease of 4,458 million yen from the end of the previous fiscal year. This was primarily due to decreases in cash and deposits by 5,233 million yen.

(Liabilities)

Total liabilities at the end of the period under review came to 13,744 million yen, an increase of 2,760 million yen from the end of the previous fiscal year. This was mainly because of an increase of 1,979 million yen in unearned revenue.

(Net assets)

Total net assets at the end of the period under review were 29,209 million yen, a decrease of 7,219 million yen from the end of the previous fiscal year. This was chiefly owing to a decrease in retained earnings by 7,843 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 March 31, 2023
Assets		
Current assets		
Cash and deposits	42,546,956	37,313,917
Accounts receivable - trade	1,691,129	2,107,873
Other	1,495,420	2,126,746
Allowance for doubtful accounts	(15,264)	(12,930)
Total current assets	45,718,242	41,535,607
Non-current assets		
Investments and other assets		
Investment securities	518,939	404,775
Lease and guarantee deposits	1,040,603	890,398
Other	150,449	143,953
Allowance for doubtful accounts	(15,166)	(20,564)
Total investments and other assets	1,694,826	1,418,562
Total non-current assets	1,694,826	1,418,562
Total assets	47,413,069	42,954,170

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(Thousands of yen)

	As of June 30, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Other payable	2,137,546	1,278,021
Accrued expenses	1,290,446	2,074,640
Income taxes payable	174,046	102,827
Unearned revenue	6,296,100	8,275,855
Provision for bonuses	131,405	99,655
Short-term borrowings	550,000	–
Current portion of long-term borrowings	–	119,266
Other	186,926	168,760
Total current liabilities	10,766,471	12,119,026
Non-current liabilities		
Bonds payable	26,000	–
Asset retirement obligation	–	1,529,272
Long-term other payable	10,000	10,000
Provision for stock-based compensation	11,248	26,236
Deposits received from members	136,933	19,679
Other	33,793	40,438
Total non-current liabilities	217,974	1,625,626
Total liabilities	10,984,446	13,744,652
Net assets		
Shareholders' equity		
Common stock	24,724,300	25,038,947
Capital surplus	40,630,339	40,944,986
Retained earnings (Accumulated deficit)	(29,268,227)	(37,111,737)
Treasury stock	–	(281)
Total shareholders' equity	36,086,413	28,871,915
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,514	17,261
Foreign currency translation adjustment	5,228	7,804
Total accumulated other comprehensive income	8,743	25,065
Stock acquisition rights	333,466	312,536
Total net assets	36,428,622	29,209,517
Total liabilities and net assets	47,413,069	42,954,170

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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, 2022	For the nine months ended March 31, 2023
Net sales	10,507,998	13,813,535
Cost of sales	2,147,902	2,262,397
Gross profit	8,360,095	11,551,137
Selling, general and administrative expenses	10,440,825	16,254,703
Operating loss	(2,080,729)	(4,703,565)
Non-operating income		
Lecture fee and other income	238	735
Consumption taxes refund	617	-
Interest on refund of income taxes	5,950	5,471
Recoveries of written off receivables	1,057	-
Gain arisen from the expired liabilities	-	17,585
Other	1,814	3,044
Total non-operating income	9,678	26,838
Non-operating expenses		
Interest expenses	1,960	12,944
Loss on investments in silent partnerships	481	66
Foreign exchange losses	17,745	10,584
Loss on investments in investment partnerships	5,372	14,757
Loss on amortization of restricted stock remuneration	-	27,775
Commission paid	-	12,914
Other	3,131	1,748
Total non-operating expenses	28,690	80,791
Ordinary Loss	(2,099,741)	(4,757,519)
Extraordinary income		
Gain on reversal of amortization of leasehold deposits	-	9,302
Gain on sale of shares of subsidiaries and associates	8,670	-
Gain on step acquisitions	-	72,502
Other	-	146
Total extraordinary income	8,670	81,951
Extraordinary losses		
Impairment losses	132,967	2,942,121
Loss on valuation of investment securities	-	96,247
Office relocation expenses	-	118,186
Other	12	-
Total extraordinary losses	132,980	3,156,555
Loss before income taxes	(2,224,050)	(7,832,123)
Income taxes - current	13,689	12,345
Income taxes - deferred	-	(958)
Total income taxes	13,689	11,387
Loss	(2,237,739)	(7,843,510)
Loss attributable to owners of parent	(2,237,739)	(7,843,510)

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Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	For the nine months ended March 31, 2022	For the nine months ended March 31, 2023
Loss	(2,237,739)	(7,843,510)
Other comprehensive income		
Valuation difference on available-for-sale securities	5,599	13,746
Foreign currency translation adjustment	2,522	2,576
Total other comprehensive income	8,121	16,322
Comprehensive income	(2,229,617)	(7,827,187)
Comprehensive income attributable to		
Owners of parent	(2,229,617)	(7,827,187)
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.

(Significant subsequent events)

Not applicable.