

Consolidated Financial Results
for the Three Months Ended September 30, 2023
[Japanese GAAP]



November 14, 2023

Company name: freee K.K.
Listing: Tokyo Stock Exchange
Securities code: 4478
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Scheduled date to file quarterly securities report: November 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 three months of the fiscal year ending June 30, 2024

(from July 1, 2023 to September 30, 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	%
Three months ended September 30, 2023	5,720	34.9	(1,915)	-	(2,074)	-	(2,126)	-	(2,288)	-
September 30, 2022	4,238	25.0	(1,042)	-	(1,171)	-	(1,197)	-	(3,266)	-

Notes: 1. Comprehensive income Three months ended September 30, 2023: ¥(2,349) million (-%)
Three months ended September 30, 2022: ¥(3,199) 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, 2023	Yen (39.49)	Yen -
September 30, 2022	Yen (57.47)	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, 2023	Millions of yen 39,452	Millions of yen 24,823	% 59.5
June 30, 2023	42,786	27,059	60.1

Reference: Equity

As of September 30, 2023: ¥23,482 million
As of June 30, 2023: ¥25,729 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, 2023	Yen —	Yen 0.0	Yen —	Yen 0.0	Yen 0.0
Fiscal year ending June 30, 2024	—				
Fiscal year ending June 30, 2024 (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, 2024 (from July 1, 2023 to June 30, 2024)

For the fiscal year ending June 30, 2024, we forecast net sales of 25,400 million yen (up 32.2% compared to net sales for Platform business(2) for the fiscal year ended June 30, 2023) 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 8,650 - 7,800 million yen due to investment for sustainable growth over the mid to long-term.

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, 2024	25,400	32.2	(8,650) ~(7,800)	—

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, 2023	57,983,508 shares
As of June 30, 2023	57,875,116 shares

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

As of September 30, 2023	13,761 shares
As of June 30, 2023	12,512 shares

c. Average number of outstanding shares during the period

Three months ended September 30, 2023	57,943,098 shares
Three months ended September 30, 2022	56,832,713 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 34.3% (*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". Furthermore, we made investments in advertising, mainly online marketing, in preparation for the Invoice System starting in October 2023.

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 32.4% to 21,822 million yen, the number of paying customers(*7) by 18.5% to 458,196, and ARPU(*8) by 11.8% to 47,626 yen. Moreover, for the first three months of Platform business, net sales increased by 34.9% to 5,720 million yen year-over-year and adjusted operating loss(*9) was 1,915 million yen (1,042 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 34.9% year-over-year to 5,720 million yen, adjusted operating loss was 1,915 million yen (1,042 million yen in the same period of the previous fiscal year, and the same applies hereafter), operating loss was 2,074 million yen (1,171 million yen), ordinary loss was 2,126 million yen (1,197 million yen). Loss attributable to owners of parent resulted in 2,288 million yen (3,266 million yen in the previous fiscal year).

Trends in ARR, Number of Paying Customers and ARPU

	Jun. 30, 2021	Jun. 30, 2022	Jun. 30, 2023	Sep. 30, 2022	Sep. 30, 2023
ARR (¥ million)	11,268	15,057	20,579	16,475	21,822
Number of paying customers	293,296	379,404	451,088	386,655	458,196
ARPU (¥)	38,419	39,686	45,622	42,611	47,626

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 2023."

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

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- 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 39,452 million yen, a decrease of 3,334 million yen from the end of the previous fiscal year. This was primarily due to a decrease in cash and deposits by 4,701 million yen.

(Liabilities)

Total liabilities at the end of the period under review came to 14,628 million yen, a decrease of 1,099 million yen from the end of the previous fiscal year. This was mainly because of a decrease of 907 million yen in other payable.

(Net assets)

Total net assets at the end of the period under review were 24,823 million yen, a decrease of 2,235 million yen from the end of the previous fiscal year. This was chiefly owing to a decrease in retained earnings by 2,288 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 the development and acquisition of customers, which generally entails an operating loss in the short term.

For the fiscal year ending June 30, 2024, we forecast net sales of 25,400 million yen (up 32.2% compared to net sales in the fiscal year ended June 30, 2023 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 8,650 to 7,800 million yen (compared to a loss of 7,195 million yen in the fiscal year ended June 30, 2023) and adjusted operating profit margin is expected to be a loss ranging from 34.1% to 30.7% 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, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	36,405,852	31,703,980
Accounts receivable - trade	2,250,951	2,139,797
Other	2,568,885	4,122,206
Allowance for doubtful accounts	(15,597)	(13,196)
Total current assets	41,210,091	37,952,788
Non-current assets		
Investments and other assets		
Investment securities	529,937	439,051
Lease and guarantee deposits	876,204	878,629
Other	199,746	212,723
Allowance for doubtful accounts	(29,095)	(30,692)
Total investments and other assets	1,576,793	1,499,712
Total non-current assets	1,576,793	1,499,712
Total assets	42,786,885	39,452,500

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(Thousands of yen)

	As of June 30, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Other payable	1,927,678	1,020,635
Accrued expenses	2,433,417	2,334,515
Income taxes payable	189,953	100,009
Unearned revenue	8,940,008	8,938,080
Provision for bonuses	234,614	134,129
Other provisions	94,019	108,565
Other	234,232	367,931
Total current liabilities	14,053,924	13,003,867
Non-current liabilities		
Asset retirement obligation	1,529,496	1,529,945
Long-term other payable	10,000	10,000
Deposits received from members	13,600	1,731
Other provisions	30,399	31,506
Other	90,401	51,500
Total non-current liabilities	1,673,898	1,624,684
Total liabilities	15,727,823	14,628,551
Net assets		
Shareholders' equity		
Common stock	25,640,623	25,699,480
Capital surplus	41,555,929	41,614,505
Retained earnings (Accumulated deficit)	(41,606,663)	(43,894,983)
Treasury stock	(281)	-
Total shareholders' equity	25,589,608	23,419,001
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	105,385	42,448
Deferred gains or losses on hedges	25,085	4,149
Foreign currency translation adjustment	9,306	17,275
Total accumulated other comprehensive income	139,776	63,873
Stock acquisition rights	328,770	325,688
Non-controlling interests	1,000,906	1,015,385
Total net assets	27,059,061	24,823,949
Total liabilities and net assets	42,786,885	39,452,500

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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, 2022	For the three months ended September 30, 2023
Net sales	4,238,841	5,720,205
Cost of sales	703,456	1,001,500
Gross profit	3,535,384	4,718,704
Selling, general and administrative expenses	4,707,157	6,793,351
Operating loss	(1,171,773)	(2,074,647)
Non-operating income		
Lecture fee and other income	330	74
Gain arisen from the expired liabilities	–	2,689
Other	1,207	130
Total non-operating income	1,537	2,894
Non-operating expenses		
Interest expenses	4,548	252
Foreign exchange losses	8,157	11,876
Loss on amortization of restricted stock remuneration	9,513	32,398
Commission expenses	4,137	7,975
Other	518	2,728
Total non-operating expenses	26,876	55,231
Ordinary Loss	(1,197,112)	(2,126,984)
Extraordinary income		
Gain on reversal of stock acquisition rights	146	315
Gain on reversal of amortization of leasehold deposits	9,302	–
Total extraordinary income	9,448	315
Extraordinary losses		
Impairment losses	1,956,329	131,062
Office relocation expenses	118,186	–
Other	31	–
Total extraordinary losses	2,074,547	131,062
Loss before income taxes	(3,262,211)	(2,257,732)
Income taxes - current	5,157	14,114
Income taxes - deferred	(958)	1,995
Total income taxes	4,199	16,110
Loss	(3,266,410)	(2,273,842)
Profit attributable to non-controlling interests	–	14,478
Loss attributable to owners of parent	(3,266,410)	(2,288,320)

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Quarterly consolidated statement of comprehensive income

	(Thousands of yen)	
	For the three months ended September 30, 2022	For the three months ended September 30, 2023
Loss	(3,266,410)	(2,273,842)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,076)	(62,937)
Deferred gains or losses on hedges	66,466	(20,935)
Foreign currency translation adjustment	1,712	7,969
Total other comprehensive income	67,102	(75,903)
Comprehensive income	(3,199,307)	(2,349,745)
Comprehensive income attributable to		
Owners of parent	(3,199,307)	(2,364,224)
Non-controlling interests	-	14,478

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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.