

Consolidated Financial Results
for the Six Months Ended December 31, 2023
[Japanese GAAP]



February 14, 2024

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 Listing: Tokyo Stock Exchange
 Securities code: 4478
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Scheduled date to file quarterly securities report: February 14, 2024
 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, 2024
(from July 1, 2023 to December 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	%
Six months ended										
December 31, 2023	11,771	35.0	(4,337)	-	(4,715)	-	(4,884)	-	(6,206)	-
December 31, 2022	8,718	27.2	(2,324)	-	(2,623)	-	(2,658)	-	(4,886)	-

Notes: 1. Comprehensive income Six months ended December 31, 2023: ¥(6,283) million (-%)
 Six months ended December 31, 2022: ¥(4,888) 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, 2023	(106.94)	-
December 31, 2022	(85.82)	-

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, 2023	38,986	20,419	51.6
June 30, 2023	42,786	27,059	60.1

Reference: Equity

As of December 31, 2023: ¥20,133 million
 As of June 30, 2023: ¥25,729 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, 2023	Yen —	Yen 0.0	Yen —	Yen 0.0	Yen 0.0
Fiscal year ending June 30, 2024	—	0.0			
Fiscal year ending June 30, 2024 (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, 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, (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, 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
- Changes in accounting policies due to revisions to accounting standards and other regulations : None
 - Changes in accounting policies other than a. above : None
 - Changes in accounting estimates : None
 - 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, 2023	58,252,549 shares
As of June 30, 2023	57,875,116 shares

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

As of December 31, 2023	24,772 shares
As of June 30, 2023	12,512 shares

c. Average number of outstanding shares during the period

Six months ended December 31, 2023	58,037,485 shares
Six months ended December 31, 2022	56,938,604 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 second quarter of the fiscal year, to realize our mission, we, the freee Group, made investments to improve the functionality of our primary services, "freee Accounting" and "freee HR." Furthermore, we made investments in advertising, mainly focused on marketing, continuously from the first quarter of the fiscal year, in preparation for the implementation of the Invoice System started in October 2023. In addition, we succeeded the business of "pasture" from en Japan Inc., a tool for management of freelancers.

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 31.9% to 23,253 million yen, the number of paying customers (*7) by 18.3% to 472,375, and ARPU (*8) by 11.5% to 49,226 yen. Moreover, for the first six months of Platform business, net sales increased by 35.0% to 11,771 million yen year-over-year and adjusted operating loss (*9) was 4,337 million yen (2,324 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 35.0% year-over-year to 11,771 million yen, adjusted operating loss was 4,337 million yen (2,324 million yen in the same period of the previous fiscal year, and the same applies hereafter), operating loss was 4,715 million yen (2,623 million yen), ordinary loss was 4,884 million yen (2,658 million yen). Loss attributable to owners of parent resulted in 6,206 million yen (4,886 million yen).

Trends in ARR, Number of Paying Customers and ARPU

	Jun. 30, 2021	Jun. 30, 2022	Jun. 30, 2023	Dec. 31, 2022	Dec. 31, 2023
ARR (¥ million)	11,268	15,057	20,579	17,629	23,253
Number of paying customers	293,296	379,404	451,088	399,420	472,375
ARPU (¥)	38,419	39,686	45,622	44,138	49,226

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 freee Accounting and freee 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 freee Accounting and freee 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 freee Accounting and freee 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 freee 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 38,986 million yen, a decrease of 3,799 million yen from the end of the previous fiscal year. This was primarily due to decreases in cash and deposits by 5,521 million yen.

(Liabilities)

Total liabilities at the end of the period under review came to 18,567 million yen, an increase of 2,839 million yen from the end of the previous fiscal year. This was mainly because of an increase of 3,248 million yen in short-term borrowings.

(Net assets)

Total net assets at the end of the period under review were 20,419 million yen, a decrease of 6,639 million yen from the end of the previous fiscal year. This was chiefly owing to a decrease in retained earnings by 6,206 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, 2023 stood at 30,884 million yen. Net cash flows and factors associated therewith for six months ended December 31, 2023 are as stated below.

(Cash flows from operating activities)

Net cash used in operating activities amounted to 6,420 million yen. This was mainly due to loss before income taxes of 6,161 million yen and impairment losses of 1,275 million.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 826 million yen. This was mainly due to a payment for payments for absorption-type split of 794 million yen.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 2,227 million yen. This was mainly due to a net increase in short-term borrowings of 3,248 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 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%

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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 December 31, 2023
Assets		
Current assets		
Cash and deposits	36,405,852	30,884,588
Accounts receivable - trade	2,250,951	2,328,034
Other	2,568,885	4,191,466
Allowance for doubtful accounts	(15,597)	(14,677)
Total current assets	41,210,091	37,389,412
Non-current assets		
Investments and other assets		
Investment securities	529,937	417,959
Lease and guarantee deposits	876,204	883,529
Other	199,746	333,495
Allowance for doubtful accounts	(29,095)	(37,414)
Total investments and other assets	1,576,793	1,597,569
Total non-current assets	1,576,793	1,597,569
Total assets	42,786,885	38,986,981

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(Thousands of yen)

	As of June 30, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Other payable	1,927,678	1,064,375
Accrued expenses	2,433,417	2,503,355
Income taxes payable	189,953	191,038
Unearned revenue	8,940,008	9,029,355
Provision for bonuses	234,614	256,265
Short-term borrowings	–	3,248,693
Other provisions	94,019	224,353
Other	234,232	423,170
Total current liabilities	14,053,924	16,940,607
Non-current liabilities		
Asset retirement obligation	1,529,496	1,530,281
Long-term other payable	10,000	10,000
Deposits received from members	13,600	1,237
Other provisions	30,399	41,250
Other	90,401	44,371
Total non-current liabilities	1,673,898	1,627,140
Total liabilities	15,727,823	18,567,748
Net assets		
Shareholders' equity		
Common stock	25,640,623	25,984,193
Capital surplus	41,555,929	41,925,366
Retained earnings (Accumulated deficit)	(41,606,663)	(47,813,283)
Treasury stock	(281)	(324)
Total shareholders' equity	25,589,608	20,095,951
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	105,385	30,043
Deferred gains or losses on hedges	25,085	400
Foreign currency translation adjustment	9,306	6,937
Total accumulated other comprehensive income	139,776	37,381
Stock acquisition rights	328,770	285,900
Non-controlling interests	1,000,906	–
Total net assets	27,059,061	20,419,233
Total liabilities and net assets	42,786,885	38,986,981

(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, 2022	For the six months ended December 31, 2023
Net sales	8,718,255	11,771,912
Cost of sales	1,397,116	2,075,505
Gross profit	7,321,138	9,696,407
Selling, general and administrative expenses	9,944,280	14,411,714
Operating loss	(2,623,141)	(4,715,307)
Non-operating income		
Lecture fee and other income	560	161
Interest on refund of income taxes	1,081	55
Gain arisen from the expired liabilities	-	2,689
Other	2,060	702
Total non-operating income	3,701	3,609
Non-operating expenses		
Interest expenses	8,182	2,131
Foreign exchange losses	10,570	18,573
Loss on amortization of restricted stock remuneration	10,853	52,278
Commission expenses	8,027	96,251
Other	1,401	3,431
Total non-operating expenses	39,035	172,666
Ordinary Loss	(2,658,474)	(4,884,364)
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	2,065,037	1,275,786
Loss on valuation of investment securities	46,247	2,033
Office relocation expenses	118,186	-
Other	-	0
Total extraordinary losses	2,229,471	1,277,819
Loss before income taxes	(4,878,497)	(6,161,869)
Income taxes - current	9,002	18,186
Income taxes - deferred	(961)	1,325
Total income taxes	8,040	19,512
Loss	(4,886,538)	(6,181,382)
Profit attributable to non-controlling interests	-	25,238
Loss attributable to owners of parent	(4,886,538)	(6,206,620)

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Quarterly consolidated statement of comprehensive income

	(Thousands of yen)	
	For the six months ended December 31, 2022	For the six months ended December 31, 2023
Loss	(4,886,538)	(6,181,382)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,076)	(75,341)
Deferred gains or losses on hedges	-	(24,684)
Foreign currency translation adjustment	(484)	(2,368)
Total other comprehensive income	(1,560)	(102,395)
Comprehensive income	(4,888,098)	(6,283,777)
Comprehensive income attributable to		
Owners of parent	(4,888,098)	(6,309,016)
Non-controlling interests	-	25,238

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(3) Quarterly Consolidated statement of cash flows

	(Thousands of yen)	
	For the six months ended December 31, 2022	For the six months ended December 31, 2023
Cash flows from operating activities		
Loss before income taxes	(4,878,497)	(6,161,869)
Impairment losses	2,065,037	1,275,786
Office relocation expenses	118,186	-
Loss on amortization of restricted stock remuneration	10,853	52,278
Increase (decrease) in allowance for doubtful accounts	2,621	7,398
Increase (decrease) in provision for bonuses	35,763	16,617
Loss (gain) on valuation of investment securities	46,247	2,033
Decrease (increase) in trade receivables	95,006	(64,876)
Decrease (increase) in prepaid expenses	(323,888)	(1,000,576)
Increase (decrease) in accounts payable - other	(412,330)	(710,944)
Increase (decrease) in accrued expenses	721,262	69,171
Increase (decrease) in unearned revenue	43,380	(31,515)
Other, net	46,479	144,617
Subtotal	(2,429,877)	(6,401,879)
Interest received	93	184
Interest paid	(8,182)	(2,131)
Income taxes paid	(15,466)	(16,220)
Payments for office relocation related expenses	(35,920)	-
Net cash provided by (used in) operating activities	(2,489,353)	(6,420,047)

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	(Thousands of yen)	
	For the six months ended December 31, 2022	For the six months ended December 31, 2023
Cash flows from investing activities		
Purchase of property, plant and equipment	(490,796)	(394,685)
Purchase of intangible assets	(41,477)	–
Payments for transfer of businesses	(20,000)	–
Payments for absorption-type split	–	(794,200)
Purchase of investment securities	(50,296)	–
Proceeds from withdrawal of time deposits	–	500,000
Payments of leasehold and guarantee deposits	(16,430)	(13,359)
Proceeds from collection of leasehold and guarantee deposits	103,604	5,467
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(537,077)	(130,828)
Other, net	3,750	1,179
Net cash provided by (used in) investing activities	(1,048,724)	(826,428)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	200,000	3,248,693
Redemption of bonds	(26,000)	–
Proceeds from issuance of common stock	104,936	58,911
Purchase of treasury stock	(281)	(324)
Repayments to non-controlling shareholders	–	(1,000,100)
Other, net	–	(79,600)
Net cash provided by (used in) financing activities	278,654	2,227,581
Effect of exchange rate change on cash and cash equivalents	(484)	(2,368)
Net increase (decrease) in cash and cash equivalents	(3,259,907)	(5,021,263)
Cash and cash equivalents at beginning of period	42,046,956	35,905,852
Cash and cash equivalents at end of period	38,787,048	30,884,588

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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.