



Consolidated Financial Results
for the Six Months Ended December 31, 2019
[Japanese GAAP]

February 14, 2020

Company name: freee K.K.
 Listing: Tokyo Stock Exchange
 Securities code: 4478
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Scheduled date to file quarterly securities report: February 14, 2020
 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, 2020
(from July 1, 2019 to December 31, 2019)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended December 31, 2019	3,072	-	(1,082)	-	(1,333)	-	(1,335)	-
December 31, 2018	-	-	-	-	-	-	-	-

Note: Comprehensive income Six months ended December 31, 2019: ¥(1,335) million [-%]
 Six months ended December 31, 2018: ¥ – million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended December 31, 2019	(32.04)	-
December 31, 2018	-	-

- Note: 1. As the Company has not prepared consolidated financial statements for the six months ended December 31, 2018, the financial figures and the percentage indicating year-on-year changes are not shown for the six months ended December 31, 2018 and the percentage indicating year-on-year changes is not shown for the six months ended December 31, 2019.
2. The Company conducted a 3-for-1 stock split of common stocks as of September 25, 2019. The "Earnings per share" is calculated assuming that the said stock split was conducted at the beginning of the previous consolidated fiscal year.
3. 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, 2019	16,476	13,447	79.1
June 30, 2019	7,380	4,510	56.8

Reference: Equity
 As of December 31, 2019: ¥13,037 million
 As of June 30, 2019: ¥4,189 million

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2019	-	0.0	-	0.0	0.0
Fiscal year ending June 30, 2020	-	0.0			
Fiscal year ending June 30, 2020 (Forecast)			-	0.0	0.0

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending June 30, 2020 (from July 1, 2019 to June 30, 2020)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending June 30, 2020	6,941	53.7	(2,876)	-	(3,127)	-	(3,135)	-	(76.10)

Note: Revisions to the earnings forecasts most recently announced: None

English Translation

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*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

a. Changes in accounting policies due to revisions to accounting standards and other regulations:

None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement: None

(4) Number of issued shares (Common shares)

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

As of December 31, 2019	46,946,737 shares
As of June 30, 2019	41,204,691 shares

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

As of December 31, 2019	-
As of June 30, 2019	-

c. Average number of outstanding shares during the period

As of December 31, 2019	41,699,743 shares
As of December 31, 2018	-

Note: 1. The Company conducted a 3-for-1 stock split of common stocks as of September 25, 2019. The "Total number of issued shares" and "Number of treasury shares" and "Average number of outstanding shares" are calculated assuming that the said stock split was conducted at the beginning of the previous consolidated fiscal year.

2. As the Company has not prepared consolidated financial statements for the six months ended December 31, 2018, the average number of outstanding shares during the period for the six months ended December 31, 2018 is not shown.

* Quarterly financial results reports 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. 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 payroll software for small businesses is around 1.1 trillion yen (*2). On the other hand, only 54.1% of businesses with 300 or fewer employees used accounting software, and among these businesses only 14.5% used cloud-based accounting software (*3). 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,” (*4) we develop and offer services aimed at realization of “a platform that allows anyone with ideas, passion, and skills to easily grow a robust and streamlined business.”

During the first six months of the consolidated fiscal year, we made progress towards realization of our mission, seeking to expand direct sales organizations for further expansion in our user base and also strengthening collaboration with financial institutions and other partners. We also invested in development to improve the functions of our core services “*Accounting free*” and “*HR free*” while also strengthening linkage with third-party software and services. As a result, as of December 31, 2019, ARR (*5) stood at 6,223 million yen, up 54.3% from December 31, 2018, the number of paying customers (*6) was 172,882, up 36.3%, and ARPU (*7) was 35,999 yen, up 13.2%.

Consequently, results for the first six months of the consolidated fiscal year under review were net sales of 3,072 million yen, an operating loss of 1,082 million yen, an ordinary loss of 1,333 million yen, and a net loss attributable to owners of parent of 1,335 million yen.

Trends in ARR, Number of Paying Customers and ARPU

	Jun. 30, 2017	Jun. 30, 2018	Jun. 30, 2019	Dec. 31, 2018	Dec. 31, 2019
ARR (¥ million)	1,739	3,083	5,327	4,034	6,223
Number of paying customers	82,616	120,703	154,026	126,860	172,882
ARPU (¥)	21,051	25,545	34,591	31,799	35,999

(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 2 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. Total annual spending of all potential customers assuming that all potential customers in Japan adopted *Accounting free* and *HR free*. All potential customers is the total of self-employed and SMBs with less than 1,000 employees. (Number of businesses in each category among all potential customers of *Accounting free* and *HR free* (“Tax Statistics 2017” by National Tax Agency and “Economic Census for Business Activity, June 2016” by Ministry of Internal Affairs and Communications) × Annual base charge of *Accounting free* and *HR free* 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) .

3. Survey of businesses that use cloud accounting software conducted by MM Research Institute in August 2017

4. Small Businesses refers to businesses with 1,000 or fewer employees as well as self-employed individuals.

5. 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) .

6. Refers to both self-employed and SMBs that use our services

7. 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.

(2) Explanation of Financial Position

(Assets)

Total assets as of December 31, 2019 stood at 16,476 million yen, up 9,095 million yen from June 30, 2019. This was mainly due to an increase of 8,800 million yen in cash and cash equivalents primarily owing to the issuance of new shares.

(Liabilities)

Total liabilities as of December 31, 2019 came to 3,028 million yen, up 157 million yen from June 30, 2019. This was mainly due to an increase of 74 million yen in other payables and an increase of 62 million yen in unearned revenue.

(Net assets)

Total net assets as of December 31, 2019 amounted to 13,447 million yen, up 8,937 million yen from June 30, 2019. This was due to increases of 5,091 million yen in common stock and capital surplus respectively due to activities including the issuance of new shares associated with listing on the Tokyo Stock Exchange Mothers.

(3) Explanation of Cash Flows

Cash and cash equivalents (hereinafter referred to as “cash”) amounted to 14,653 million yen as of December 31, 2019. Cash flows from each activity for the period under review and their significant factors are as follows.

(Cash flows from operating activities)

Net cash used in operating activities was 823 million yen. This was calculated from a loss before income taxes of 1,331 million yen, with adjustment items such as listing related expenses of 215 million and a decrease in trade accounts receivable of 125 million yen.

(Cash flows from investing activities)

Cash used in investing activities was 429 million yen. This was primarily attributable to purchases of property and equipment of 146 million yen and purchases of intangible assets of 234 million yen.

(Cash flows from financing activities)

Cash provided by financing activities was 10,053 million yen. This chiefly reflects proceeds from issuance of new shares of 10,147 million yen associated with listing on Tokyo Stock Exchange Mothers.

(4) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements

The consolidated earnings forecast for the fiscal year ending June 30, 2020 is unchanged from the previously announced forecast as progress is generally in line with initial projections.

2. Quarterly Consolidated Financial Statements and Primary Notes**(1) Quarterly Consolidated Balance Sheets**

(Thousands of yen)

	As of June 30, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	5,852,912	14,653,264
Trade accounts receivable	638,027	512,579
Other current assets	144,349	226,577
Allowance for doubtful receivables	△19,135	△16,952
Total current assets	6,616,153	15,375,468
Total current assets		
Property, plant and equipment	140,352	243,551
Intangible assets		
Software	316,243	465,673
Software in progress	61,108	112,901
Total intangible assets	377,351	578,574
Investments and other assets	247,100	279,138
Total non-current assets	764,804	1,101,265
Total assets	7,380,958	16,476,734
Liabilities		
Current liabilities		
Other payables	463,867	538,476
Accrued expenses	487,835	519,704
Income taxes payable	8,527	73,206
Unearned revenue	1,726,254	1,788,575
Other current liabilities	184,417	108,803
Total current liabilities	2,870,902	3,028,766
Total liabilities	2,870,902	3,028,766
Net assets		
Shareholders' equity		
Common stock	100,000	5,191,854
Capital surplus	16,006,038	21,097,893
Retained earnings (Accumulated deficit)	△11,916,199	△13,252,108
Total shareholders' equity	4,189,838	13,037,640
Stock acquisition rights	320,217	410,327
Total net assets	4,510,056	13,447,967
TOTAL LIABILITIES AND NET ASSETS	7,380,958	16,476,734

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Thousands of yen)

	For the six months ended December 31, 2019
Net sales	3,072,101
Cost of sales	673,207
Gross profit	2,398,894
Selling, general and administrative expenses	3,481,576
Operating loss	△1,082,681
Non-operating income	
Revenue from lecture fees	797
Other	496
Total non-operating income	1,294
Non-operating expenses	
Share issuance costs	35,576
Listing related expenses	215,188
Other	1,272
Total non-operating expenses	252,036
Ordinary loss	△1,333,424
Extraordinary income	
Gain on reversal of stock acquisition rights	1,716
Total extraordinary income	1,716
Loss before income taxes	△1,331,707
Income taxes	4,201
Total income taxes	4,201
Loss	△1,335,908
Loss attributable to owners of parent	△1,335,908

English Translation

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Quarterly Consolidated Statement of Comprehensive Income**(Thousands of Yen)**

	For the six months ended December 31, 2019
Loss	△1,335,908
Comprehensive income	△1,335,908
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	△1,335,908
Comprehensive income attributable to owners of Minority interest	—

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

For the six months ended December 31, 2019	
Cash flows from operating activities	
Loss before income taxes	△1,331,707
Depreciation and amortization	69,900
Stock-based compensation expenses	91,355
Stock issuance costs	35,576
Listing related expenses	215,188
Decrease in allowance for doubtful receivables	△2,182
Gain on reversal of stock acquisition rights	△1,716
Decrease in trade accounts receivable	125,447
Decrease in other payables	△26,289
Increase in accrued expenses	19,844
Increase in unearned revenue	62,321
Other—net	△73,216
Subtotal	△815,480
Interest received	33
Income taxes—paid	△8,527
Net cash provided by (used in) operating activities	△823,974
Cash flows from investing activities	
Purchases of property and equipment	△146,266
Payment for software	△234,445
Purchases of lease and guarantee deposits	△25,221
Other—net	△23,104
Net cash provided by (used in) investing activities	△429,037

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(Thousands of yen)

For the six months
ended December 31, 2019

Cash flows from financing activities	
Proceeds from issuance of new shares	10,147,495
Proceeds from issuance of new stock acquisition rights	1,110
Payment for Listing related expenses	△95,243
Net cash provided by (used in) financing activities	10,053,362
Net increase (decrease) in cash and cash equivalents	8,800,351
Cash and cash equivalents at the beginning of period	5,852,912
Cash and cash equivalents at the end of period	14,653,264

(4) Notes to the quarterly consolidated financial statements

(Notes on premise of going concern)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

The share capital and the capital surplus both received an addition of ¥5,091,854 thousand mainly due to activities including the new issuance of shares in association with the listing of the Company's common shares on the Tokyo Stock Exchange Mothers. As a result, at the end of the period, the share capital and capital surplus were ¥5,191,854 thousand, ¥21,097,893 thousand, respectively.