

Q2 FY2020.6
Financial Results

freee K.K.

February 14, 2020

Highlights

Revenue [1]
(Six months ended December 31, 2019)

JPY30.7Bn

ARR[2]

JPY62.2Bn

Subscription Rate[3]

90%+

ARPU[4]

JPY36K

Number of Paying Customers[5]

170K+

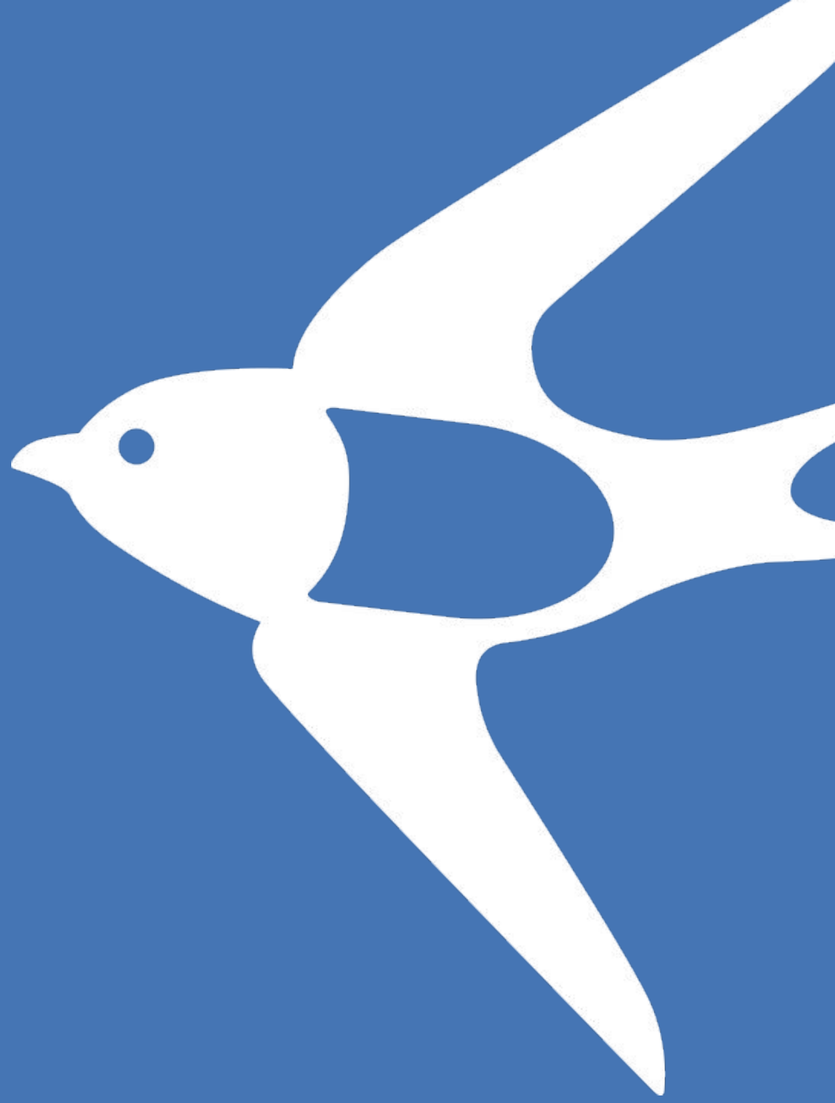
Notes:
1.For the first six months of the fiscal year ending June 2020
2.Annual Recurring Revenue. Monthly Recurring Revenue at December 2019, multiplied by 12. Monthly Recurring Revenue is defined as the amount of fees contracted to be paid by customers on a monthly basis as of the end of a particular month. MRR excludes certain fees that we consider to be non-recurring such as initial set-up and other one-time fees.
3. For the first six months of the fiscal year ending June 2020. Rate calculated by dividing subscription revenue (revenue earned every month from contracts that automatically renew unless customer indicates intention to terminate) by total revenue
4. As of December 31, 2019. Calculated by dividing total ARR by the number of paying customers.
5. As of December 31, 2019. Paying customers include self-employed users.

Mission

Empower Small Businesses to Take Center Stage

With the mission of empowering small businesses to take center stage, we strive to develop and offer innovative solutions with the aim of creating a platform that empowers anyone with ideas, passion and skills to easily grow a robust and streamlined business.

We believe that small businesses have the ability to act quickly and boldly to put ideas into action, positioning them to achieve innovation in various areas, push big businesses to evolve and inspire new movements and ideas in society.



Our Integrated ERP for SMB

Cloud-native[1] Integrated Accounting Software



freee 会計フリー

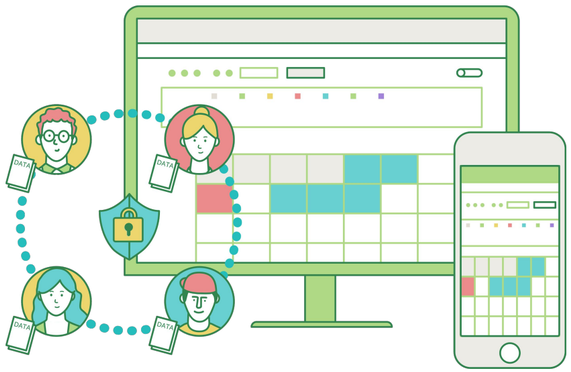
Accounting freee

Launched in 2013.3

No.1 Japan Cloud Market Share [2]

Invoicing | Expense reports
Financial statements | Budgeting | Internal controls

Cloud-native Integrated Payroll Software



freee 人事労務フリー

HR freee

Launched in 2014.10

No.1 Japan Cloud Market Share [3]

Time tracking | Joining/leaving management | Payroll
Year-end tax adjustments and filings
Personal identification number (My number) management

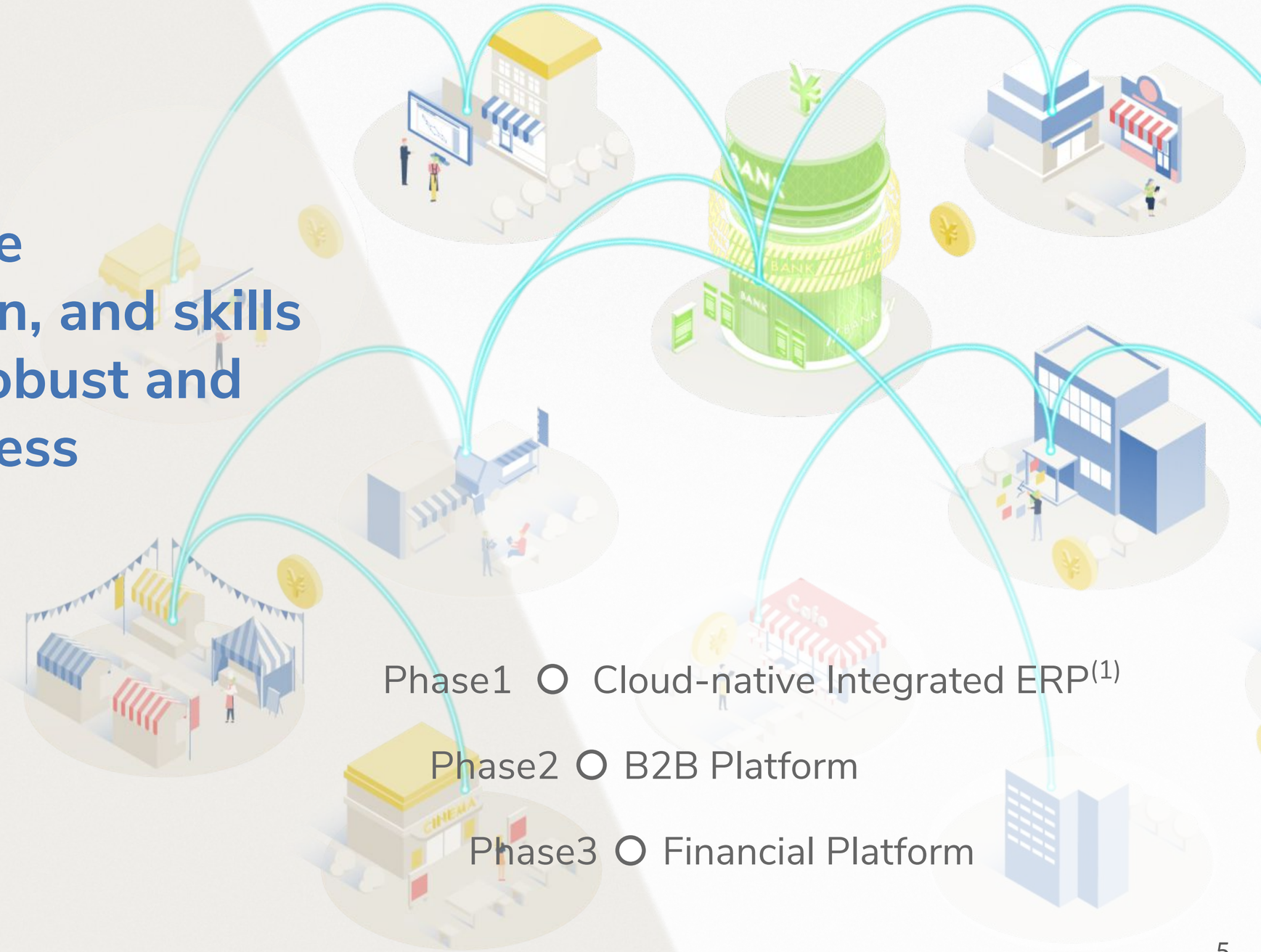
Other Products

freee 会社設立フリー	freee 開業フリー	freee 申告フリー	freee マイナンバー管理フリー	freee フリーカード
Founding freee	Opening freee	Tax filing freee	Personal identification number (My number) management freee	Corporate card freee

Notes:
1.Cloud-native services: Services that give users access to an IT system via the Internet, eliminating the need to own software or hardware
2.Source: BCN Retail announced October 2017. Web survey in September 2017 of employees of entities with less than 300 employees or self-employed who have installed cloud accounting software (N=418)
3.Source: MM Research Institute. Web survey in March 2016 of employees of entities with less than 300 employees about the usage of cloud payroll software in Japan (N=4,168)

Vision

A platform
that allows anyone
with ideas, passion, and skills
to easily grow a robust and
streamlined business



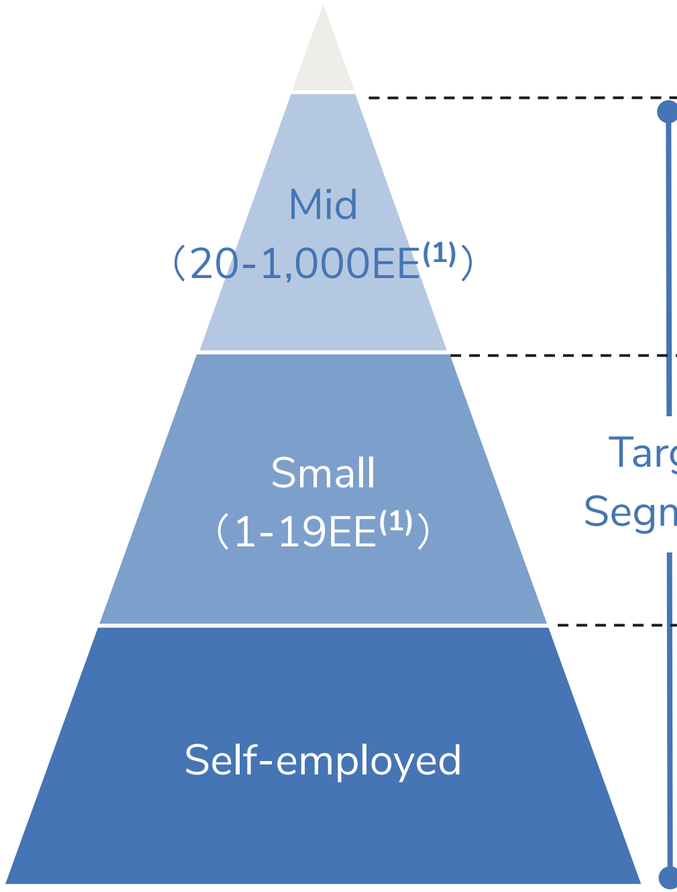
Phase1 ○ Cloud-native Integrated ERP(1)

Phase2 ○ B2B Platform

Phase3 ○ Financial Platform

Note:
1. ERP: Enterprise Resources Planning. System for collecting and managing data used across an enterprise in one centralized location.

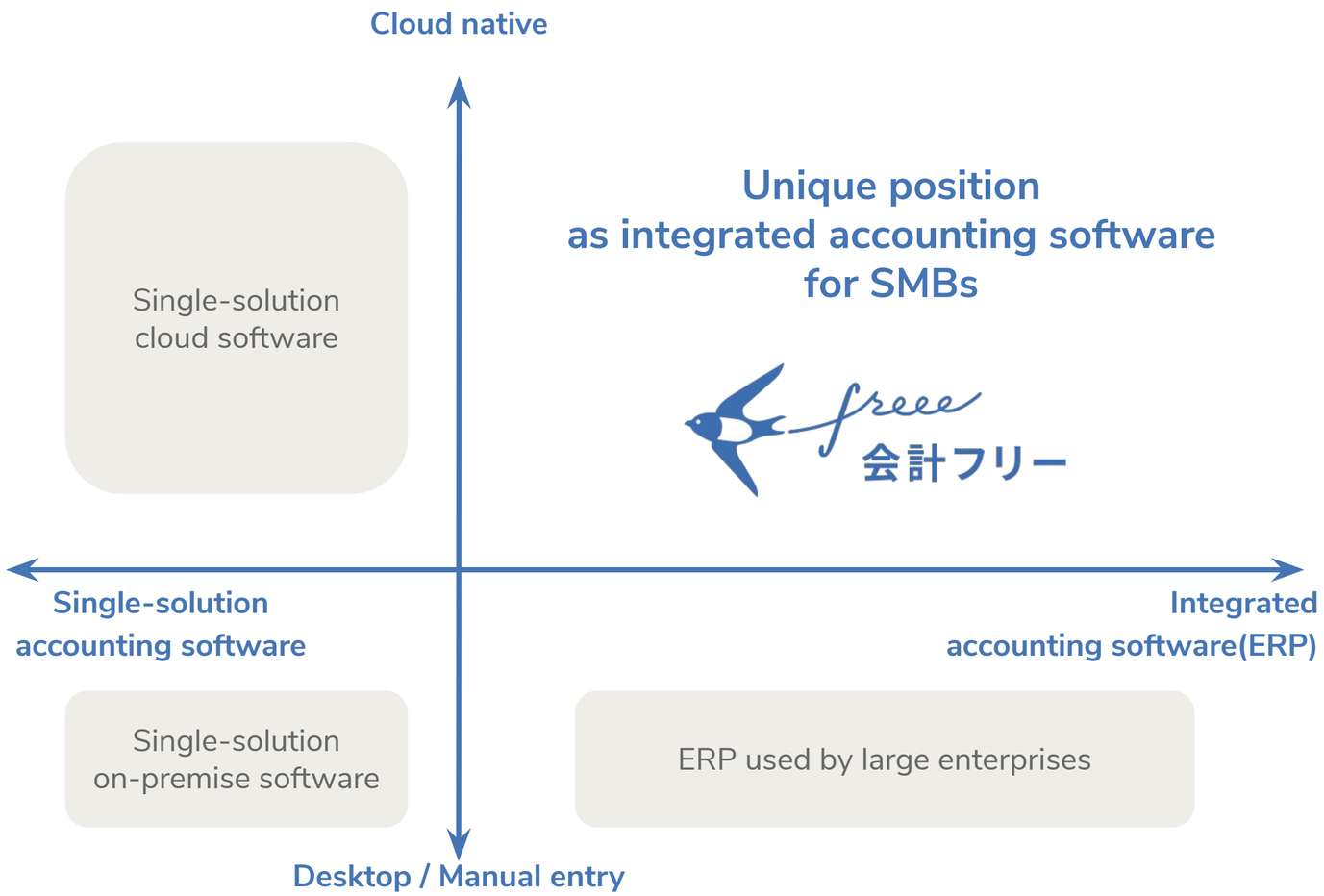
Our Services for 6 Million+ Potential Customers



	# of Potential Customers(2)	Plan		Key Selling Points
		freee 会計フリー	freee 人事労務フリー	
Mid (20-1,000EE(1))	c. 0.3MM	Enterprise Professional	Enterprise Professional	• Higher productivity and better internal controls through collaboration features across organization with integrated ERP
Small (1-19EE(1))	c. 1.5MM	Basic Minimum	Basic Minimum	• Efficient operations due to back office automation • Business intelligence • Tax filing for self-employed
Self-employed	c. 4.5MM	Premium Standard Starter		

Notes:
1.EE: Employee
2.Number of potential customers of Self-employed: Company's estimate based on National Tax Agency "Tax Statistics 2017" ; Number of potential customers of Small and Mid: Company's estimate based on Ministry of Internal Affairs and Communications "2016 Economic Census for Business Activity"

Unique Positioning = Integrated & Cloud-native



Compelling Value Proposition

- Easy-to-use, automated functionality
- Fully-integrated, comprehensive back office functions
- Navigational solutions supporting informed decision-making
- Collaborative across internal functions
- Scalability through public API(1)

Notes:
1. Public API: An API that is meant for internal use only is called a private API while an API that is accessible by external entities is called an open API. An open API that is publicly available to a wide range of entities not only specific partners is called a public API.

Our Compelling Value Proposition
As Japan's Only Cloud-native Integrated ERP

Easy & Automated



Without accounting / HR expertise
Mobile focus | AI-based autofill entries

Back Office Automation



Accounting books and HR documents
automatically maintained on integrated ERP

Navigational



Visualized financial data /
Real-time decision making support

Collaborative



Internal control-compliant /
Enhanced automation

Scalable



API integration /
First public API (1)

Notes:
1.Among Japanese accounting software

Huge Potential TAM[(1)] for Accounting freee and HR freee



Total Number of Businesses of Targeted Size in Japan[(2)] × freee's Subscription Pricing Model for the Relevant Business Category = c. JPY 1.1 Tn [(3)]

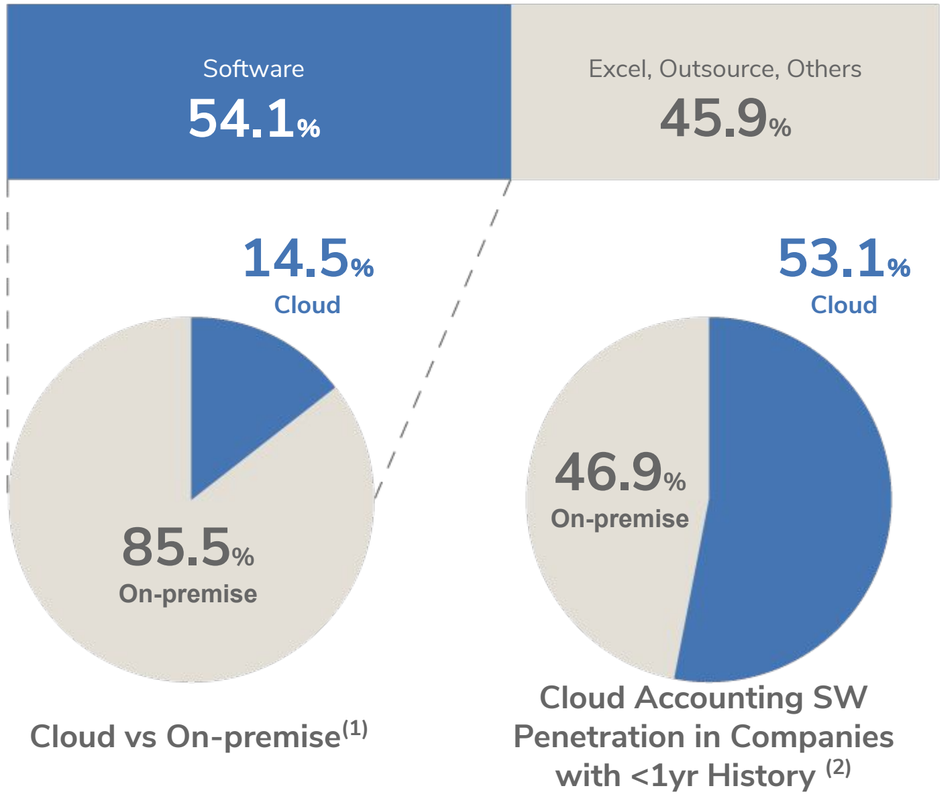
Accounting c. JPY 630Bn + HR c. JPY 550Bn

Notes:

1. TAM: Total Addressable Market: This figure is our estimate of the maximum amount of revenue we could possibly generate and is not intended as an objective indicator of the size of the market for our businesses as of December 2019. 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. Number of potential customers among self-employed: Our estimate based on number of self-employed stated in "Tax Statistics 2017" published by National Tax Agency. Number of potential customers among small and mid-sized enterprises: Our estimate based on number of corporations in each segment stated in "Economic Census for Business Activity, June 2016" published by Statistics Bureau of Ministry of Internal Affairs and Communications
3. Total annual spending of all potential customers assuming that all potential customers in Japan adopted cloud-native accounting freee and HR freee. 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 cloud-native accounting freee" and "HR freee" ("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 "cloud-native accounting freee" and "HR freee" for each category) + (Estimated average employees in each category ("Employment Status Survey, 2017" by Ministry of Internal Affairs and Communications) × Annual Charge per ID)

Hugely Untapped Cloud Accounting SW Market: Significant Growth Opportunities

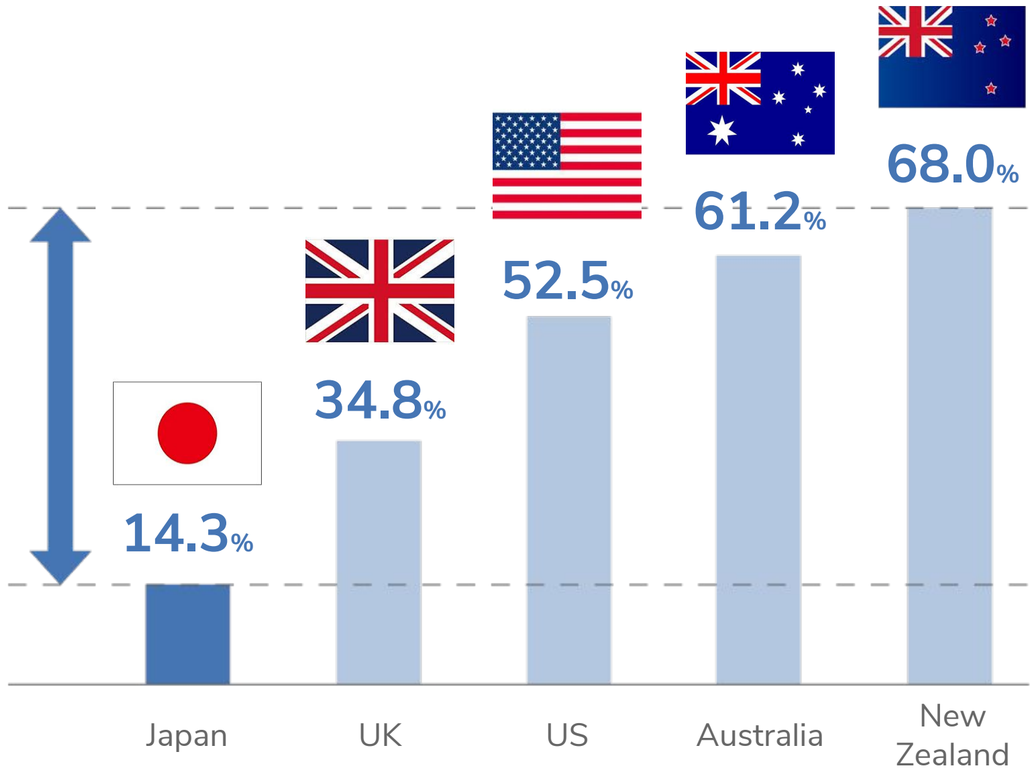
Accounting SW Penetration Rate for SMB(1)



Cloud vs On-premise(1)

Cloud Accounting SW Penetration in Companies with <1yr History (2)

Cloud Accounting Software Penetration Rate(3)



Notes:
1. As of August 2017. N=8,851. SMB: Businesses with 300 or less employees. Installed base.MM Research Institute. “Fact-finding Survey on Adoption of Cloud Accounting Software by Corporations” (Conducted August 2017)
2. As of September 2016. N=2,471. Installed base.MM Research Institute. “Fact-finding Survey on Adoption of Cloud Accounting Software by Corporations” (Conducted September 2016)
3. IDC. “Semiannual Software Tracker Forecast 2014-2023 2018H2“ and “Semiannual Cloud Services Tracker Forecast 2014-2023 2018H2”。
Cloud Accounting/HR software penetration rate = Cloud Accounting/HR software market size ÷ Accounting/HR software market size. HR software market consists of human capital management market and payroll accounting market

Initiatives to Expand Customer Base

Biz Tech Frontier 2020

”Let’s change the future with the freee open platform”

For API Developers
February 5, 2020



Mr. Shinichiro Isago,
Platform Evangelist,
LINE Corporation



Mr. Takuya Oikawa,
CEO and
Technology Enabler,
Tably, INC.



Mr. Junichi Okamura,
Technical Partner and
Manager,
Shopify Japan K.K.

FUN! SHARE! UCHIAGE! 確定申告FES KAKUFES

”Let’s all celebrate our tax returns”

For Sole Proprietors
February 22-23, 2020



FUJIWARA



かまいたち
(KAMAITACHI)

freee Growth.Vision 2020

”Business innovation and growth starts now”

For Business Executives & Corporate Staff
February 27, 2020



Mr. Ken Kusunoki,
Professor,
Hitotsubashi ICS



Mr. Yusuke Asakura,
Co-founder,
Signifiant Inc.

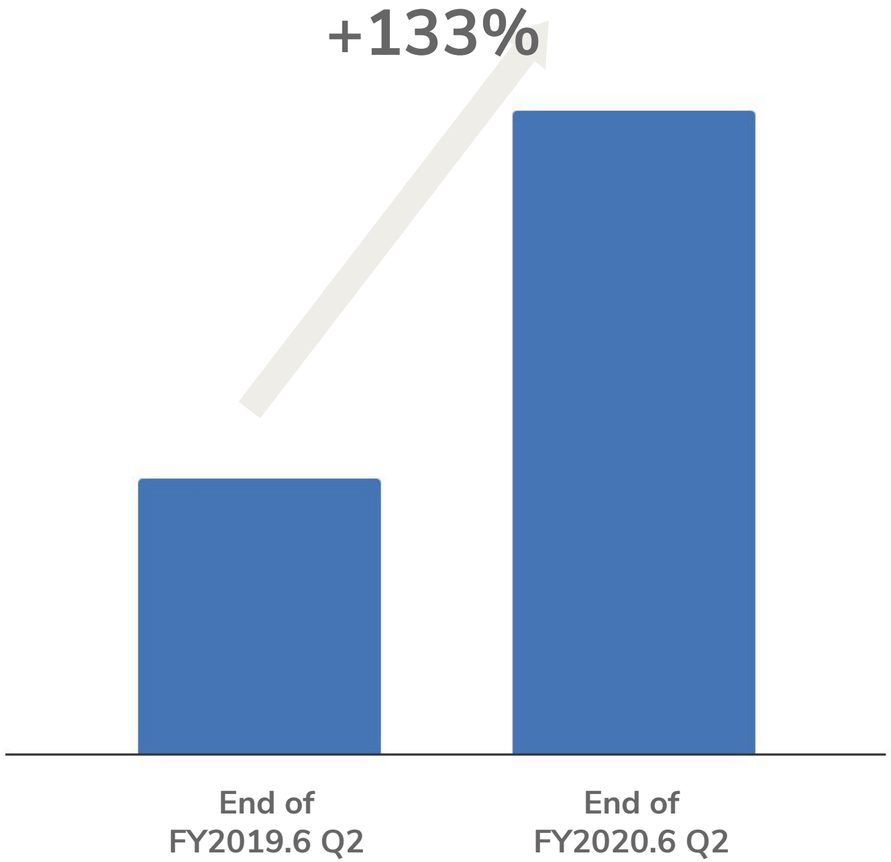


Mr. Yasukane Matsumoto,
CEO,
RAKSUL INC.

Note:
The above speakers are subject to change.

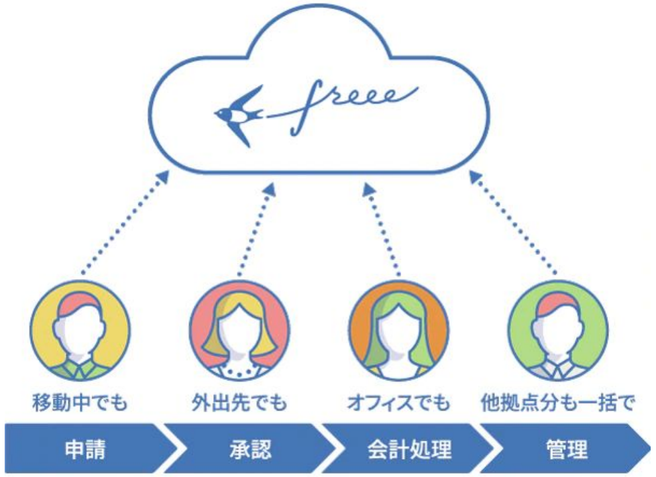
Initiatives to Enhance Customer Value

Increasing # of Customers to Use Workflow Features (1)



Recent Updates on Workflow

- 17 new functions of Accounting freee (2019.07-2019.12)
- Improvements around workflow features of HR freee
- Enhanced collaboration between Accounting freee and HR freee



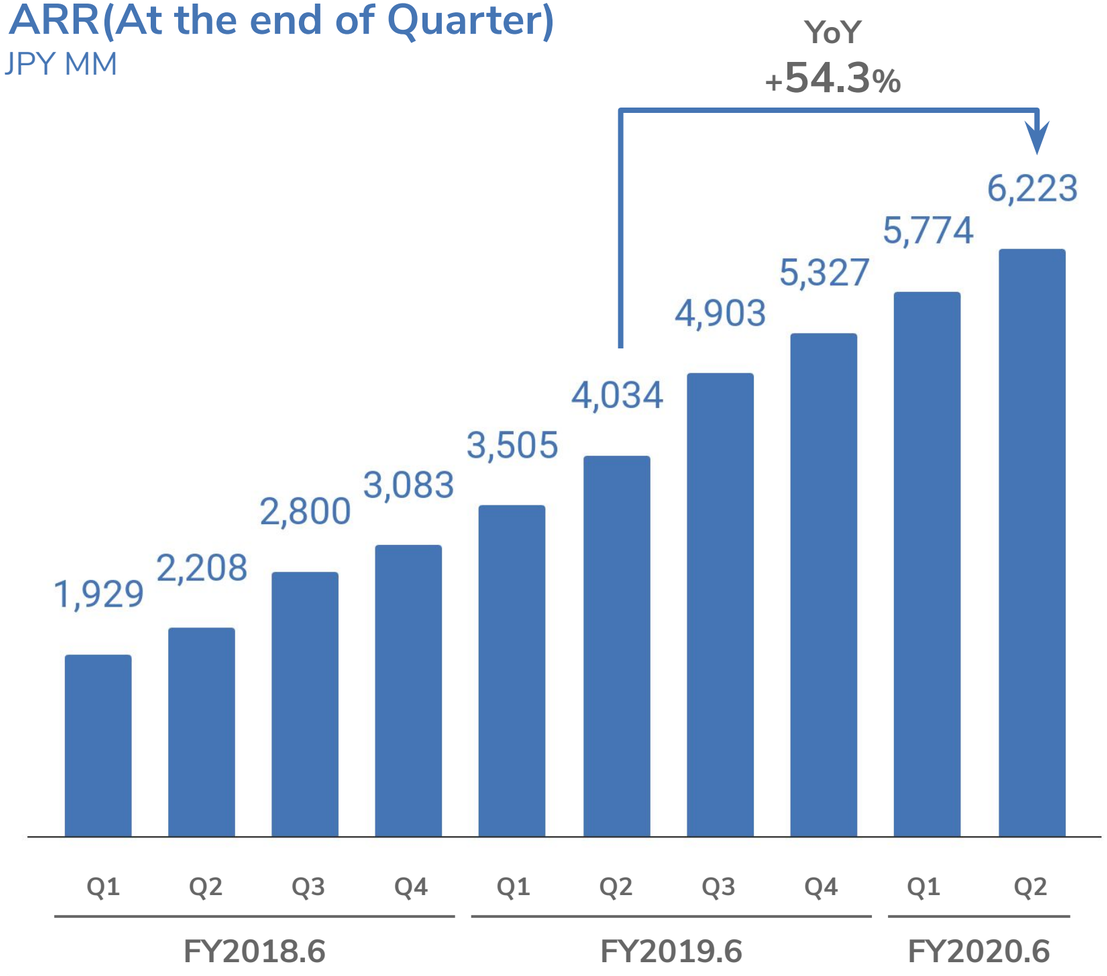
Note:
1:Function for making applications and giving approval in relation to all kinds of workflow processes such as reimbursement of expenses, payment requests and all kinds of decisions.

ARR / Revenue

- ARR[(1)] was JPY 6,223MM, up 54.3% y-o-y, and revenue amounted to JPY 1,580MM, up 56.1%.

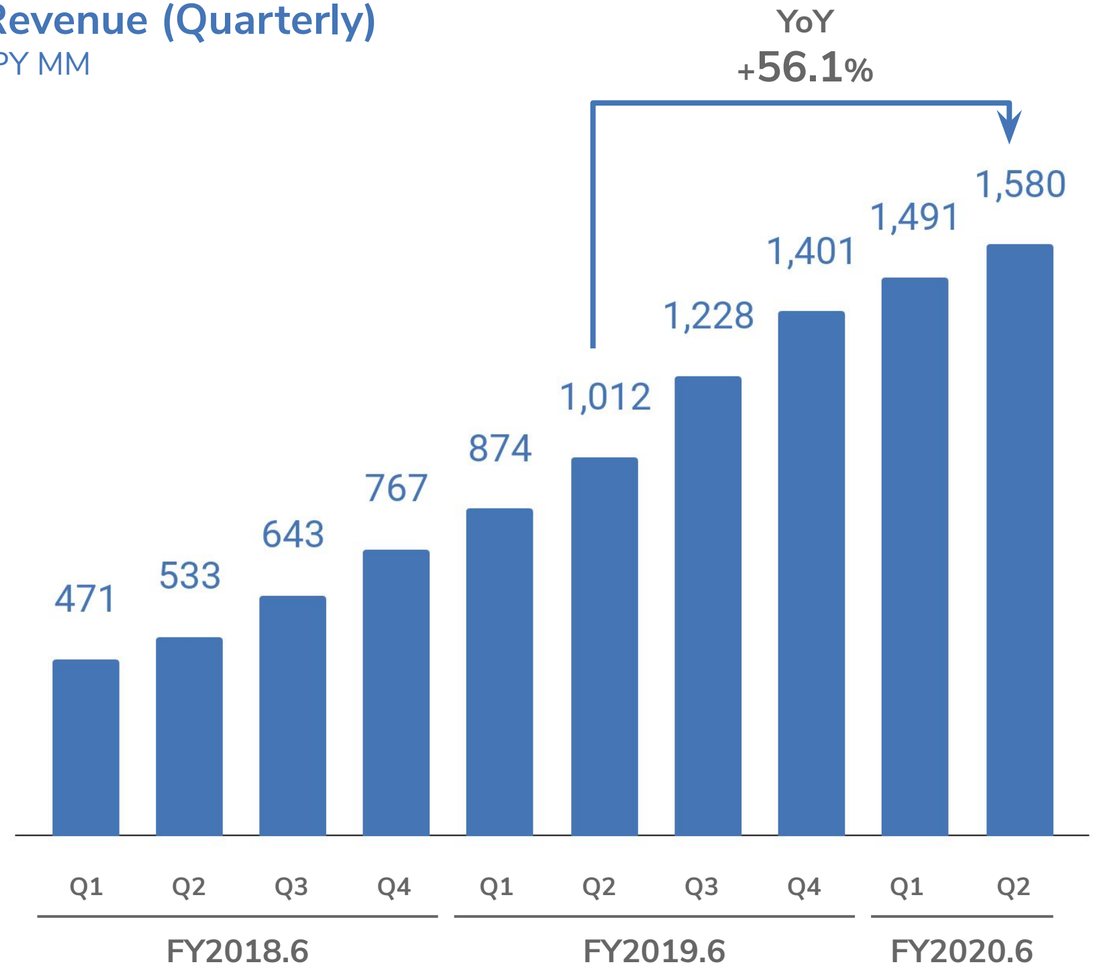
ARR(At the end of Quarter)

JPY MM



Revenue (Quarterly)

JPY MM



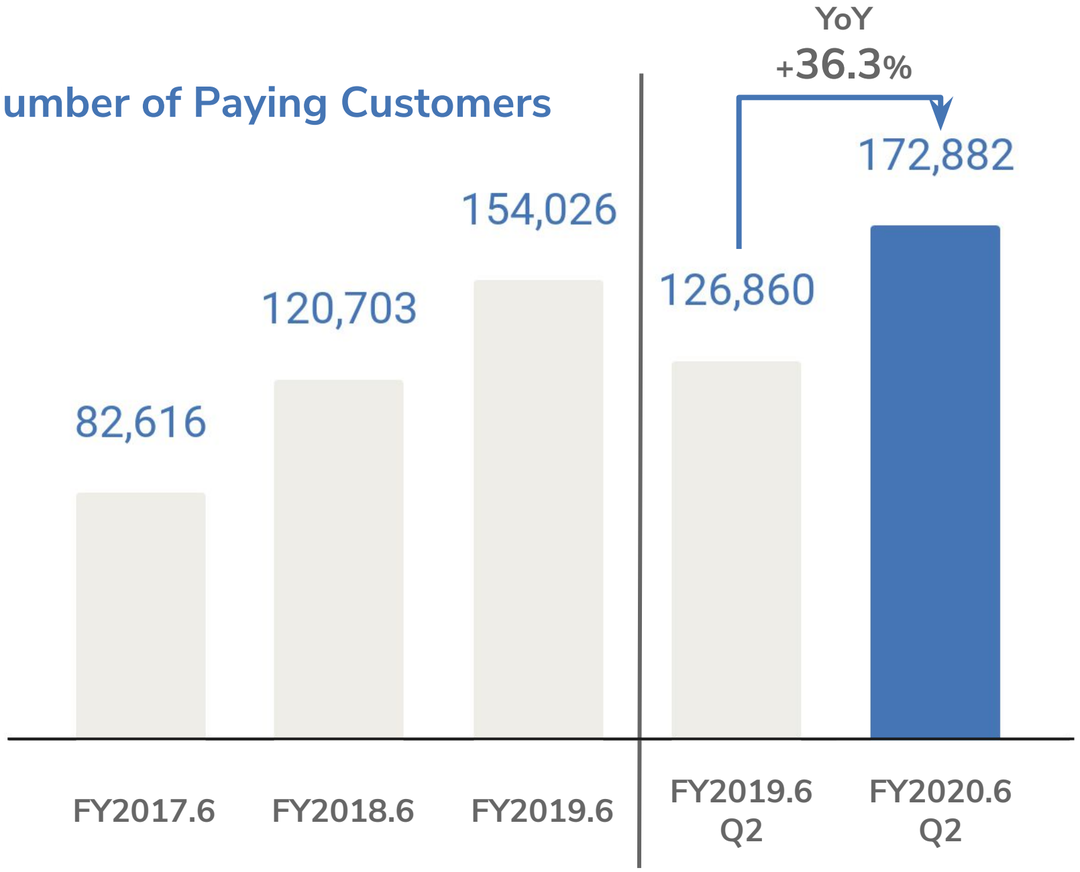
Notes:

1. Annual Recurring Revenue. Calculated by multiplying Monthly Recurring Revenue (MRR) by 12. Monthly Recurring Revenue is the total 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)
2. Non-consolidated for periods to Q1 FY2019. Figures for other periods are presented on a consolidated basis

Number of Paying Customers / ARPU

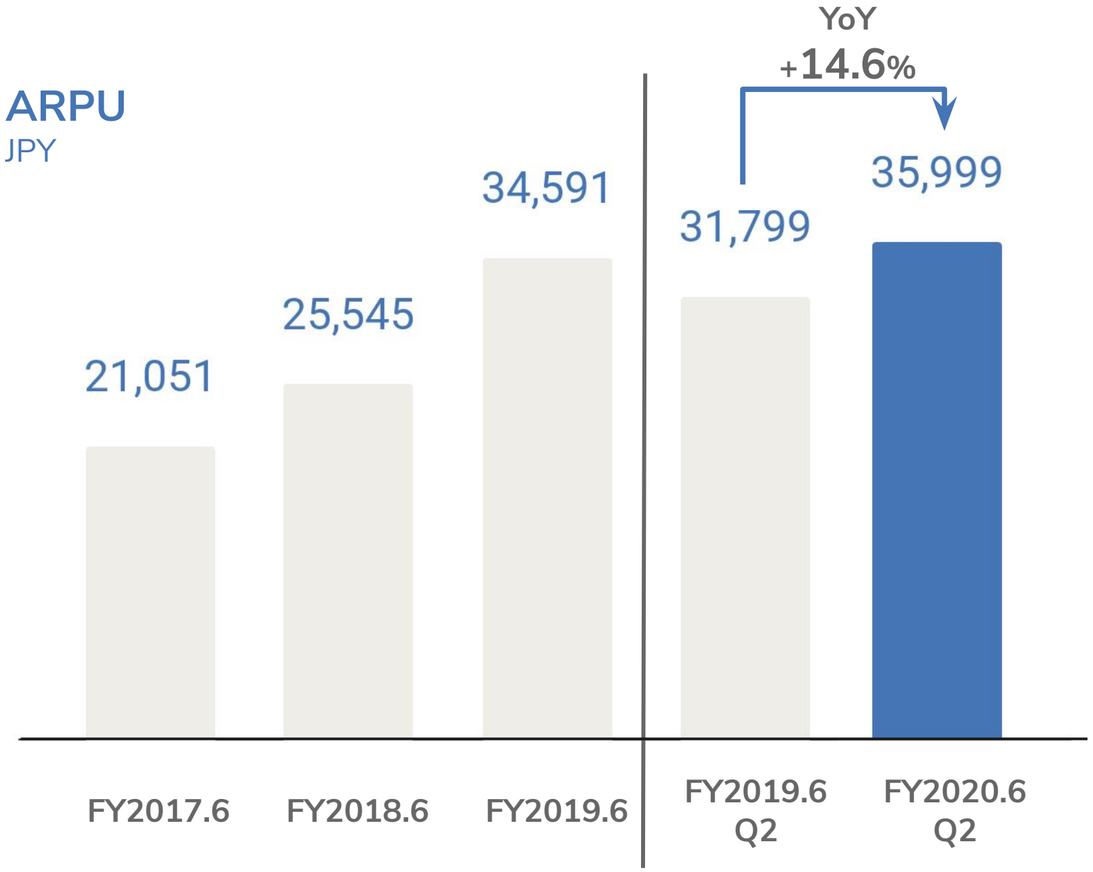
- Number of paying customers[1] increased to 172,882, up 36.3% y-o-y, primarily driven by the self-employed and small-sized business segments, and rose 36.3% year on year, to 172,882
- ARPU[2] was JPY 35,999 , up 14.6%, mainly due to growth in the mid-sized business segment

Number of Paying Customers



ARPU

JPY



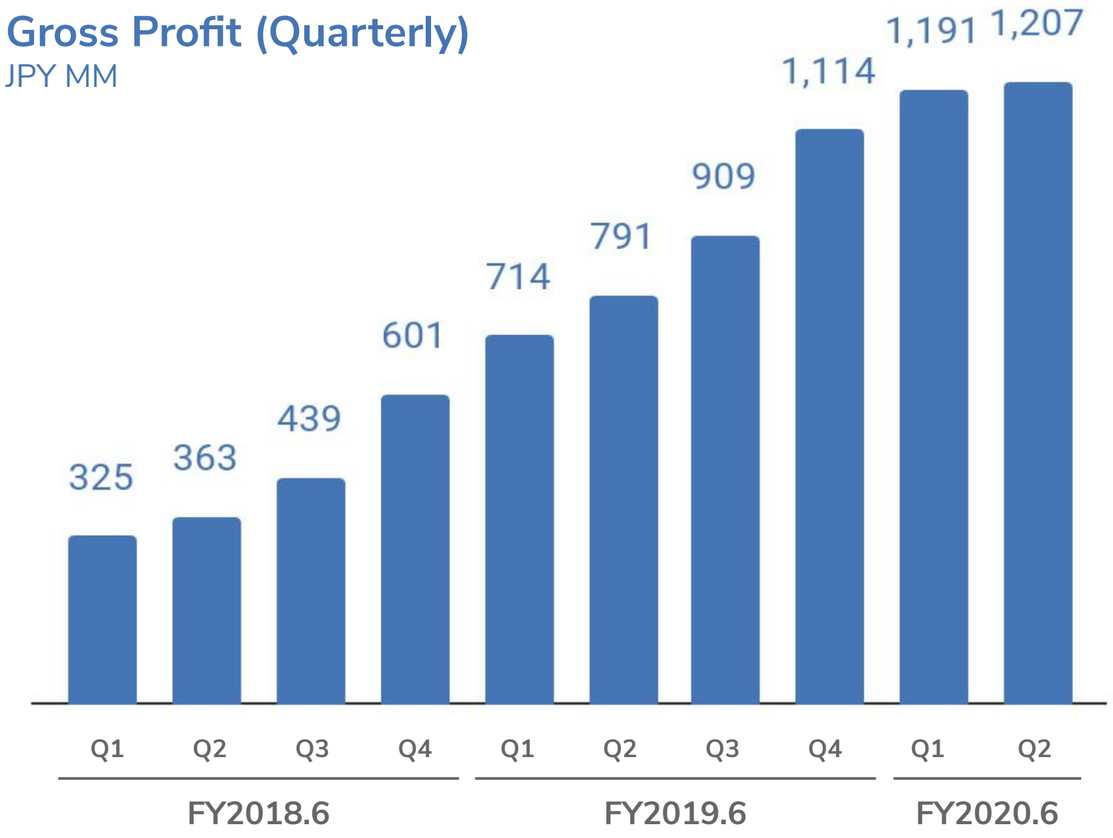
Notes:
1. Number of paying customers: Refers to both self-employed individuals and SMBs that use our services.
2. ARPU: Annual Recurring Revenue as of the end of the relevant period ÷ the number of paying customers as of the end of the same period.

Gross Profit

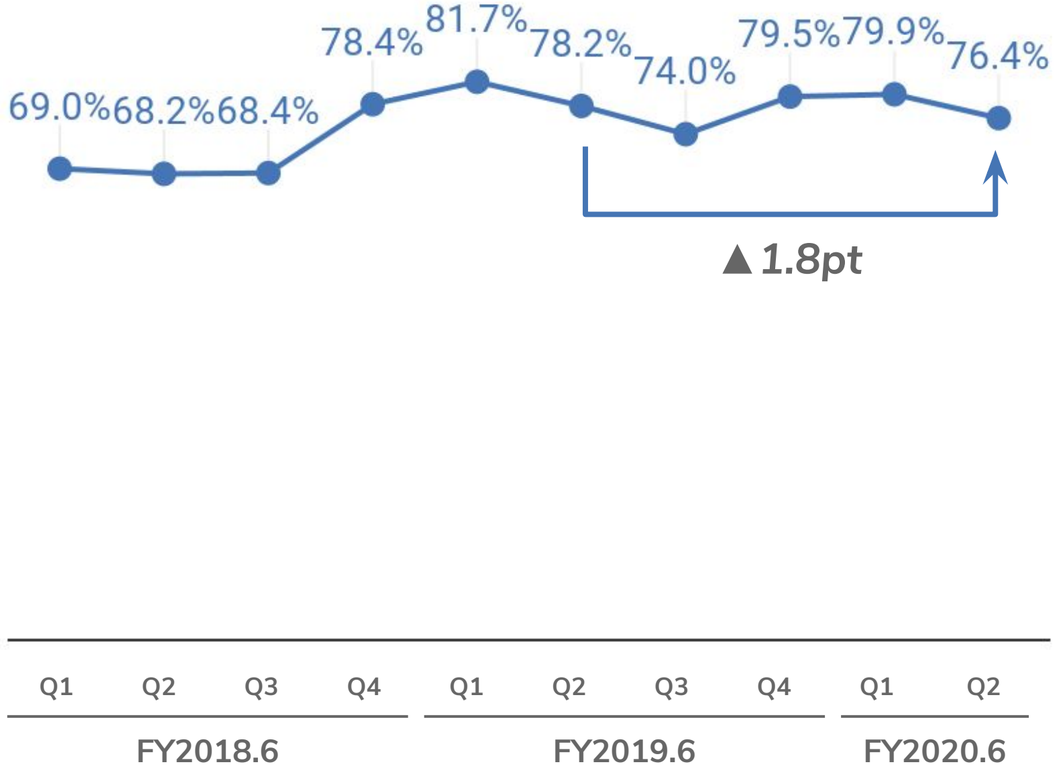
- Gross profit increased 52.6% y-o-y, to JPY 1,207MM. The gross profit margin fell 1.8 pt, to 76.4%.
  - From the beginning of this fiscal year, we expected the gross profit margin for FY2020 to be lower than FY2019 due to increased depreciation of software assets, launch of customer support sites and other factors.
  - Gross profit margin result for Q2 FY2020 was in line with expectations

Gross Profit (Quarterly)

JPY MM



Gross Profit Margin (Quarterly)



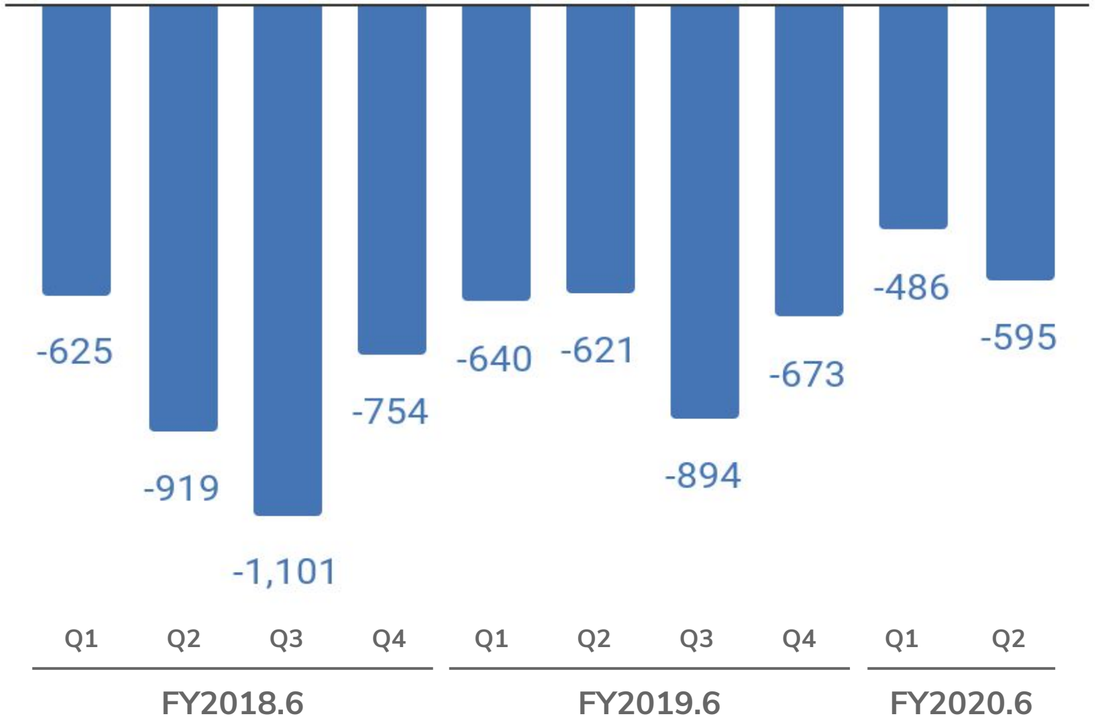
Notes:
1. Non-consolidated for periods to Q1 FY2019. Figures for other periods are presented on a consolidated basis.

Operating Profit

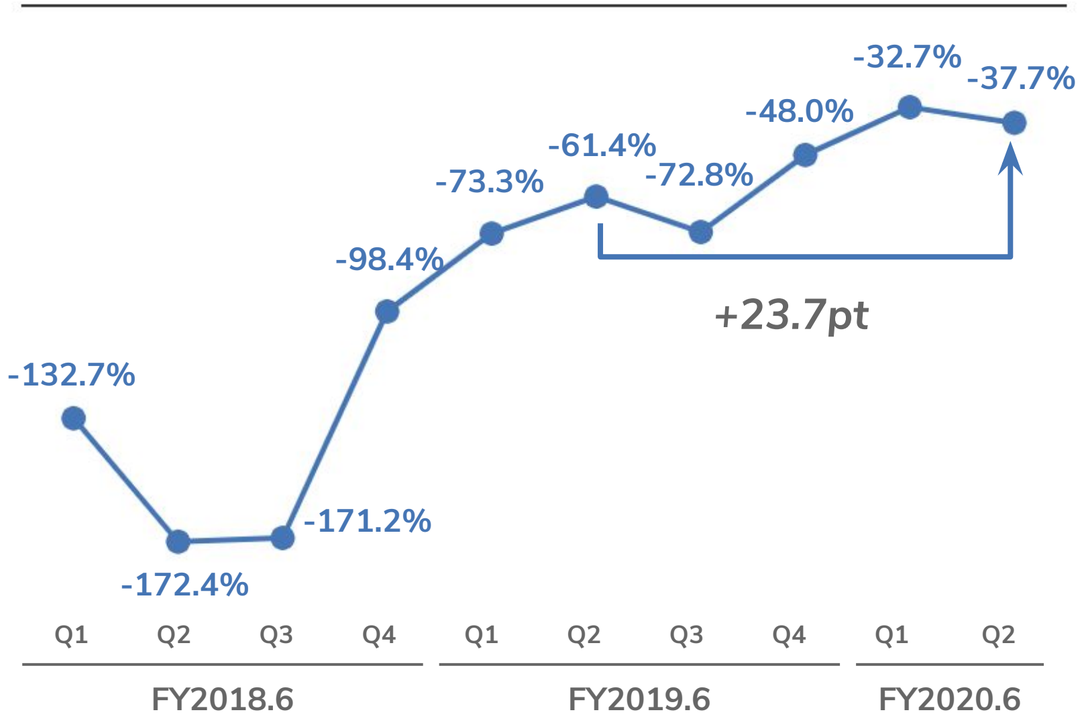
- Operating loss was JPY 595MM. The operating profit margin was -37.7%, improving 23.7pt y-o-y
  - Operating profit margin for FY2020 is expected to improve, backed by an increase in accumulated subscription revenue
  - Operating profit margin for result for Q2 FY2020 was in line with expectations

Operating Profit (Quarterly)

JPY MM



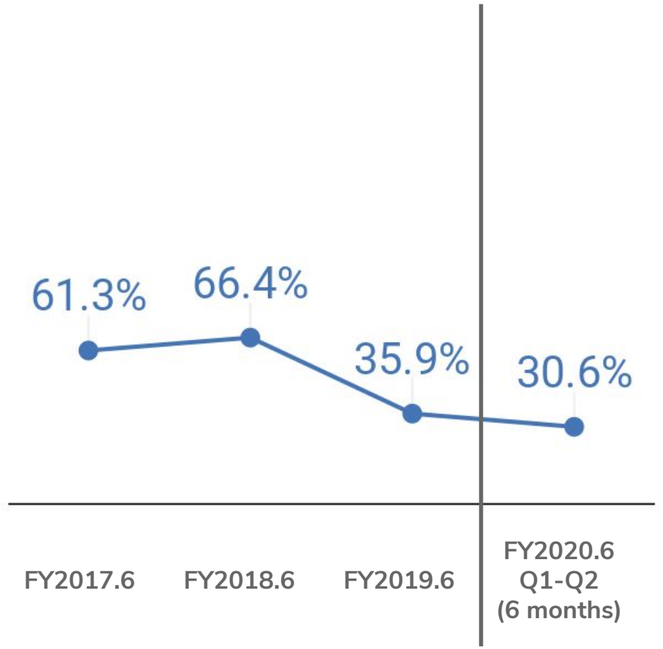
Operating Profit Margin (Quarterly)



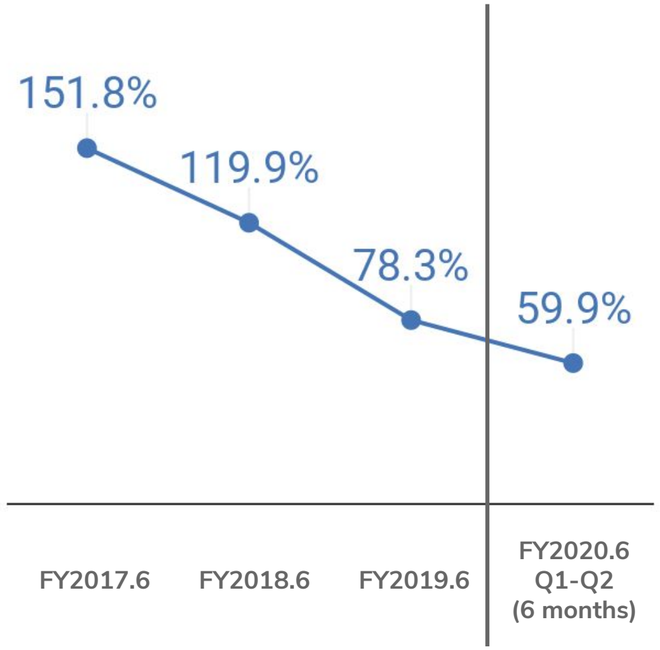
Notes:
1. Non-consolidated for periods to Q1 FY2019. Figures for other periods are presented on a consolidated basis.

Breakdown of SG&A (% of Revenue)

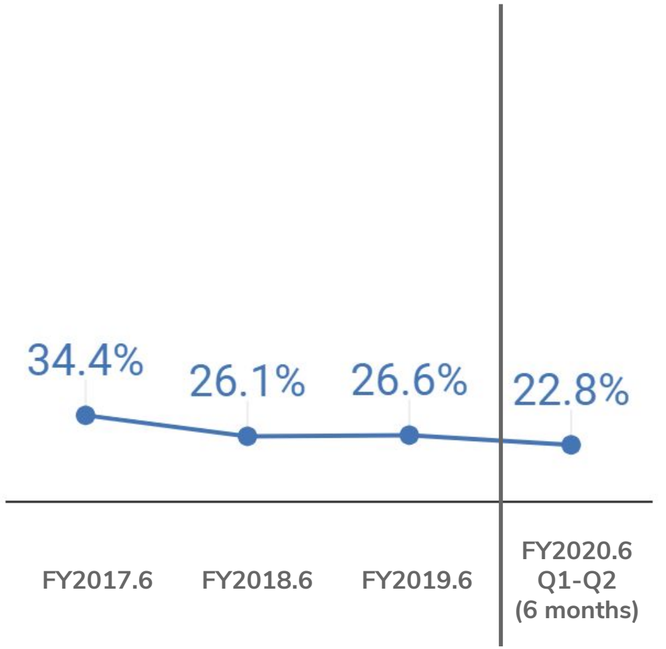
R&D[1]



S&M[2]



G&A[3]



Notes:
1. Research and Development. Total of labor costs of engineers involved in research and development and other research and development-related expenses
2. Sales and Marketing. Total of advertising expenses for sales promotions, labor costs of sales personnel and other sales and marketing-related expenses
3. General and Administrative. Total of labor costs of corporate departments and other general and administrative expenses

Guidance for FY2020.6

- Our business performance is on track with the forecast for FY2020.6, which was disclosed on December 17 2019

JPY MM	FY2019.6 (Actual)	FY2020.6 (Guidance)
Revenue	**4,516**	**6,941**
YoY Growth	87.0%	53.7%
Operating Profit	**-2,830**	**-2,876**
Operating Profit Margin	-62.7%	-41.4%
Ordinary Profit	**-2,850**	**-3,127**
Ordinary Profit Margin	-63.1%	-45.1%
Net Income	**-2,778**	**-3,135**
Net Income Margin	-61.5%	-45.2%

Appendix

Income Statement

JPY MM

	FY2017.6	FY2018.6	FY2019.6	FY2019.6 Q1-Q2(6 months)	FY2020.6 Q1-Q2(6 months)
Revenue	**1,202**	**2,414**	**4,516**	**1,886**	**3,072**
YoY Growth	111.3%	100.9%	87.0%	87.8%	62.8%
Cost of revenue	**433**	**684**	**986**	**380**	**673**
% of Revenue	36.1%	28.3%	21.8%	20.2%	21.9%
Gross Profit	**768**	**1,730**	**3,530**	**1,506**	**2,398**
Gross Profit Margin	63.9%	71.7%	78.2%	79.8%	78.1%
Selling, General and Administrative Expenses	**2,974**	**5,131**	**6,361**	**2,768**	**3,481**
% of Revenue	247.5%	212.5%	140.8%	146.7%	113.3%
R&D[2]	736	1,604	1,623	739	941
% of Revenue	61.3%	66.4%	35.9%	39.2%	30.6%
S&M[3]	1,825	2,896	3,536	1,455	1,840
% of Revenue	151.8%	119.9%	78.3%	77.2%	59.9%
G&A[4]	413	631	1,200	573	699
% of Revenue	34.4%	26.1%	26.6%	30.4%	22.8%
Operating Profit	**-2,206**	**-3,401**	**-2,830**	**-1,262**	**-1,082**
Operating Profit Margin	-183.5%	-140.8%	-62.7%	-66.9%	-35.2%

Notes:
1. Non-consolidated for FY2017 and FY2018. Consolidated for other periods
2. Research and Development. Total of labor costs of engineers involved in research and development and other research and development-related expenses
3. Sales and Marketing. Total of advertising expenses for sales promotions, labor costs of sales personnel and other sales and marketing-related expenses
4. General and Administrative. Total of labor costs of corporate departments and other general and administrative expenses

Balance Sheet and Cash Flow Statement

Balance Sheet

JPY MM

	FY2017.6	FY2018.6	FY2019.6	FY2020.6 Q2
Total Current Assets	**4,934**	**2,173**	**6,616**	**15,375**
Cash and cash equivalent	4,800	1,634	5,852	14,653
Total Fixed Assets	**79**	**242**	**764**	**1,101**
Total Current Liabilities	**972**	**1,723**	**2,870**	**3,028**
Deferred Revenue	579	1,078	1,726	1,788
Total Equity	**4,041**	**692**	**4,510**	**13,447**

Cash Flow Statement

JPY MM

	FY2017.6	FY2018.6	FY2019.6	FY2020.6 Q1-Q2 (6 months)
Net Cash Provided by (Used in) Operating Activities	**-1,512**	**-2,942**	**-1,726**	**-823**
Net Cash Provided by (Used in) Investing Activities	**-31**	**-223**	**-539**	**-429**
Net Cash Provided by (Used in) Financing	**3,338**	**-**	**6,484**	**10,053**
Net Increase in Cash and Cash Equivalents	1,794	-3,166	4,218	8,800
Cash and Cash Equivalents at the Beginning of Year	3,006	4,800	1,634	5,852
Cash and Cash Equivalents at the End of Year	**4,800**	**1,634**	**5,852**	**14,653**

Note:
1. Non-consolidated for FY2017 and FY2018. Consolidated for other periods

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