



GEECHS | 7060

TSE Standard

Q2 Follow-up

Business performance remained generally favorable amid business portfolio restructuring

◆ **Q2 FY2025/3 results review:** On November 8th, 2024, Geechs Inc. (hereafter, the "Company") announced its H1 FY2025/3 earnings results. Net sales rose 2.2% YoY to JPY 12,183 mn, EBITDA rose 3.5% YoY to JPY 256 mn, and operating profit rose 84.3% YoY to JPY 193 mn. Steady expansion of its core IT freelance matching business (Japan), the Seed Tech business turning profitable for the first time, and the absence of losses from G2 Studios (former Game business), sold at the end of the previous fiscal year helped boost results, but losses widened in the IT freelance matching business (Overseas). Nevertheless, business performance remained generally favorable amid business portfolio restructuring.

◆ **Maintained full-year FY2025/3 earnings forecast:** Although challenges remain in the IT freelance matching business (Overseas), the Company expects net sales to grow 11% YoY, EBITDA to rise 85% YoY, as well as a return to net profitability in FY2025/3 taking into consideration H1 results, on the back of a steady expansion of its IT freelance matching business (Japan) and elimination of unprofitable businesses, the Seed Tech business turning profitable for the first time on the back of higher offshore development sales. The Company will likely continue to pay a DPS of JPY 10 along with a target dividend payout ratio of 30%. If it is able to do that, it is highly likely to achieve an ROE in the 10% range. In addition, at the results briefing, the Company mentioned: 1) plans to develop new sales offices in Sapporo and Hiroshima, and promote growth of local companies by utilizing freelancers; 2) launch of IT solutions business as a new business; and 3) preparations to pursue growth strategies through M&A deals.

◆ **Share price insights:** GEECHS's shares are although a microcap stock, SIR believes that the Company's share is being left with a low valuation, even among low-priced stocks from a single-year fundamental perspective, with a forward dividend yield at the 2% level, rare for IT-related stocks, a forward P/E ratio below 13x, EV/EBITDA below 3.5x, and a P/B ratio below 1.3x based on figures at end-Q2. The Management team also views the loss of interest from the stock market as an issue.

The Company set a target dividend payout ratio of 30%, and has indicated that it may boost dividends in line with EPS growth. Accordingly, SIR used a dividend discount model to work out what level of dividend growth is factored into the latest share price. The results suggest that the latest share price of JPY 412 implies a profit growth rate of 3 to 4%, but does not reflect the Company's sustainable growth rate of 7% (calculated as projected ROE of 10% x (1 - dividend payout ratio of 30%)). Furthermore, it also implies that there is substantial upside potential should the certainty of profit growth improve.

JPY mn, %	Sales	YoY	EBITDA	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS (JPY)	DPS (JPY)
2022/3	14,340	N.M.	-	N.M.	1,133	53.5	1,135	59.1	705	54.1	67.18	10.00
2023/3	15,997	11.6	651	N.M.	589	-48.0	567	(50.0)	244	-65.4	23.20	10.00
2024/3	23,739	48.4	362	(44.4)	90	(84.6)	82	(85.5)	(1,473)	N.M.	(142.75)	10.00
2025/3 CE	26,300	10.8	670	85.0	550	505.3	545	560.7	336	N.M.	32.54	10.00
2024/3 H1	11,917	55.8	247	-	104	-59.6	99	(62.1)	(11)	-	(1.11)	-
2025/3 H1	12,183	2.2	256	3.5	193	84.3	199	99.7	164	-	15.91	-

Source: Compiled by SIR from the Company IR material. *EBITDA: Operating profit + Depreciation + Amortization of goodwill + Stock-based compensation expenses. Figures may differ from the Company's materials due to differences in SIR's financial data processing and the Company's reporting standards.

GEECHS

Focus Point

- Largest company in Japan that handles only freelancers specializing in IT engineers.
- With the structural tailwind of a growing shortage of IT engineers every year, the Company's business performance can be calculated to a certain extent.
- Looking forward to the mid-term management plan to further accelerate growth.

Key Indicators

Share price (11/21)	414
YH (24/4/10)	567
YL (24/8/5)	327
10YH (19/4/2)	2,715
10YL (24/8/5)	327
Shrs out. (1K shrs)	10,326
Mkt cap (JPY mn)	4,275
Equity ratio (24/9)	40.0%
CY2024/9 P/B (act)	1.34x
FY2025/3 P/E (CE)	12.7x
FY2024/3 ROE (act)	-41.5%
FY2025/3 DY (CE)	2.42%

Daily Stock Price Chart (1Year)



Source: Trading view

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2025/3 Q2 Results Review

* **Managed service providers** offer comprehensive services for a range of process, from finding human resources for customers to contracts. Having built a firm customer foundation, the Company expects stable growth for the business.

■ Overview: Generally in line with plan

On a company-wide basis, net sales in the three-month-period of Q2 (July-September) rose 6.5% YoY for a quarterly record high of JPY6,358 mn, while operating profit increased 49% YoY to JPY112 mn and net profit improving substantially from a loss of JPY16 mn a year earlier to JPY105 mn, partly driven by the absence of losses in the former Game business.

By business segment, sales in **the IT freelance matching business (Japan)**, a key growth driver, rose 8.5% YoY to JPY 3,740 mn, setting a new quarterly sales record. In terms of costs, although personnel expenses rose in line with increased hiring to support business expansion, operating profit grew 12.4% YoY to JPY 296 mn, as the Company was able to control advertising expenses within an appropriate level.

Under **the IT freelance matching business (Overseas)** segment. Launch Group operates a human resource service business that specializes in casually employed workers and freelancers and an MSP business*, mainly in Sydney and Melbourne. MSP sales rose 34.5% YoY to JPY2,507 mn, but operating loss widened to JPY57 mn owing to a drop in gross profit margin resulting from greater-than-expected challenges in the lucrative IT staffing and placement business, as well as expenses related to the replacement and succession of the local management team. However, the Company already has a plan in place to streamline its workforce and optimize costs, and believes that it will be able to engage in steady sales activities from January next year.

Segment Information

Segment	Business	¥ mn	FY2024/3			FY2025/3			2024/3			2025/3		
			FY2024/3	FY2025/3	YoY	FY2024/3	FY2025/3	YoY	2024/3	2025/3	YoY	2024/3	2025/3	YoY
				CE	H1	H1	(%)	Apr-Jun	Apr-Jun	(%)	Jul-Sep	Jul-Sep	(%)	
IT Freelance Matching Business (Japan)	IT freelancer and customer company matching business in Japan	Net Sales	14,089	15,800	6,907	7,435	7.6	3,460	3,694	6.8	3,447	3,740	8.5	
		Operating Profit	1,144	1,280	546	592	8.3	282	295	4.6	263	296	12.5	
		OP Margin	8.1%	8.1%	7.9%	8.0%		8.2%	8.0%		7.6%	7.9%		
IT Freelance Matching Business (Overseas)	IT freelancer and customer company matching business in Australia	Net Sales	7,162	10,000	3,704	4,556	23.0	1,840	2,048	11.3	1,864	2,507	34.5	
		Operating Profit	(135)	0	(26)	(94)	Red Widen	(21)	(36)	Red Widen	(5)	(57)	Red Widen	
		OP Margin	-1.9%	0.0%	-0.7%	-2.1%		-1.1%	-1.8%		-0.3%	-2.3%		
Seed Tech	Human resources development tool sales, IT study abroad program, and offshore development	Net Sales	282	400	129	162	25.6	52	72	38.5	76	89	17.4	
		Operating Profit	(23)	50	(2)	3	Turned Black	(9)	(13)	Red Widen	7	16	135.2	
		OP Margin	-8.2%	12.5%	-1.6%	2.0%		-17.3%	-18.1%		9.2%	18.0%		
Other (Former x-Tech Business until 2023/3)	Marketing video production for golf club manufacturers, etc.	Net Sales	128	100	68	40	(42.3)	33	14	(57.6)	35	24	(30.1)	
		Operating Profit	4	0	7	-14	Turned Red	3	-9	Turned Red	3	-5	Turned Red	
		OP Margin	3.4%	0.0%	10.3%	-36.2%		9.1%	-64.3%		8.6%	-20.8%		
G2 Studios (Former Game Business until 2023/3)	Commissioned game development and game title operation business	Net Sales	2,111	-	1,119	-		561	-		557	-		
		Operating Profit	(357)	-	(136)	-		(74)	-		(62)	-		
		OP Margin	-16.9%	0.0%	-12.2%	0.0%		-13.2%	0.0%		-11.1%	0.0%		
Total		Net Sales	23,739	26,300	11,917	12,183	2.2	5,945	5,825	(2.0)	5,971	6,358	6.5	
		Operating Profit	90	550	104	193	84.3	29	80	175.9	75	112	49.0	
		OP Margin	0.4%	2.1%	0.9%	1.6%		0.5%	1.4%		1.3%	1.8%		

Source: Compiled by SIR from the company IR materials.

The Seed Tech Business provides the SaaS-type DX/IT human resource development service Sodatech, which supports the reskilling of non-engineers, offering IT study abroad programs in Cebu, Philippines. In Q2, the business posted record quarterly sales of JPY89 mn (+17.4% YoY) thanks to higher sales in the study abroad program during peak season. It also turned profitable for the first time with an operating profit of JPY16 mn, making up for the JPY13 mn loss in Q1 and securing an operating profit of JPY3 mn for H1 FY2025/3.

At the results briefing, the Company also announced its intent to launch a new IT solutions business as part of its Seed Tech business. The Company will need to acquire a staffing agency license for this business, as it plans to either hire non-engineers and train them from the ground up, or hire experienced IT engineering staff mid-career and dispatch them as GEECHS team members to help client companies lacking IT personnel. In the process of training and dispatching professional human resources, the Company will be able to retain and place engineers seeking to become independent IT freelancers in the future, and the Management aims to create an economic zone that can serve both as an existing staffing agency and as a new staffing service.

Trends in IT freelance matching business (Japan)

* **Man-month** is one of the units of work volume, the volume of work that one person can complete each month. Man-month unit price is the order price in terms of price per man-month.

Man-months worked is the product of the number of freelancers working on a job and the duration (months) each freelancer is engaged in the project.

The volume of work that requires 1 person to work 1 month is 1 man-month, and the volume of work that requires 5 people to work 6 months is 30 man-months (5 x 6).

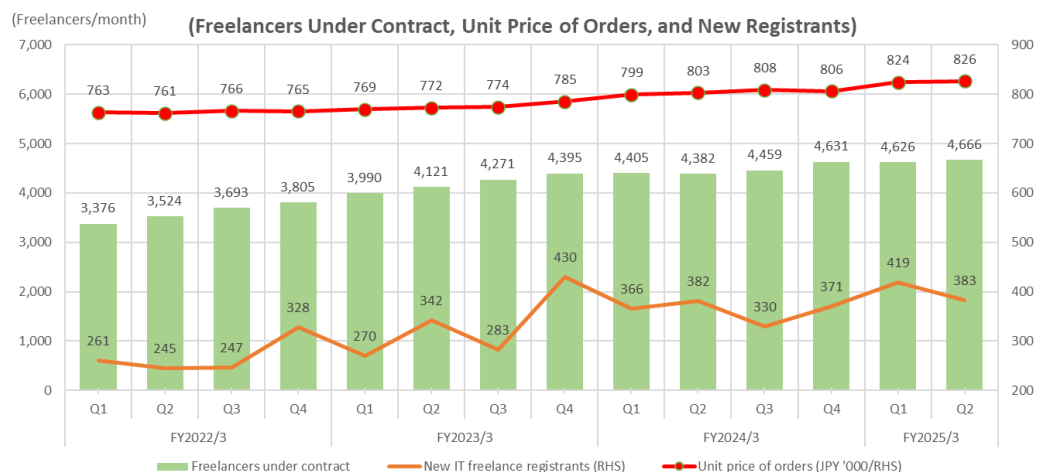
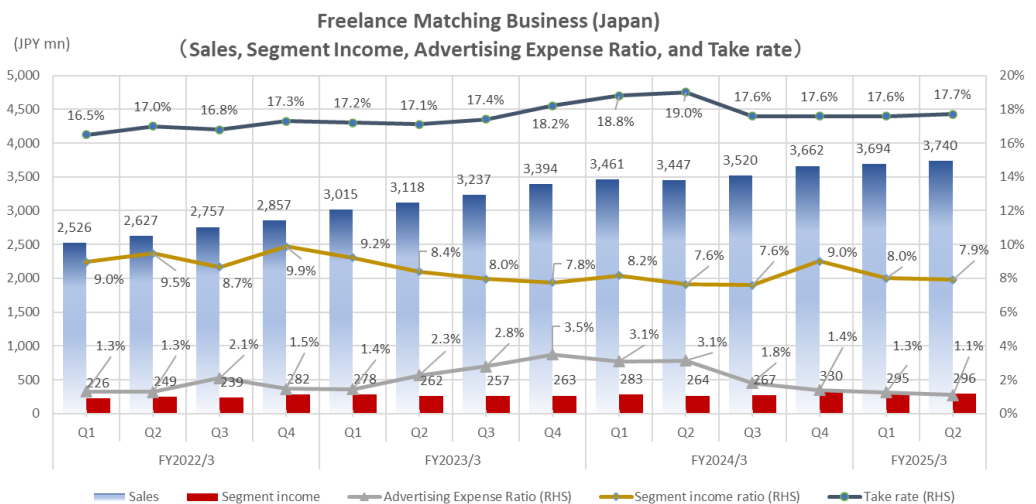
Confirmed that IT freelance matching business (Japan) is progressing smoothly

Sales in the IT freelance matching business (Japan) represent the amount earned by matching IT freelancers with work requests from customer companies—that is price of work orders = transaction value. The transaction value for the IT freelance matching business (Japan) is calculated as man-months worked* x monthly unit price of orders (one man-month is the amount of work one IT freelancer does in one month). In Q2 FY2025/3, man-months worked was 4,666, and the average monthly unit price of orders came to a record-high JPY 826,000, both coming in at record highs. This translated into a transaction value (product of man-months worked and monthly unit price of orders) of JPY 3,854 mn. This is close to the JPY 3,740 mn that the Company reports as its net sales.

Man-months worked was trending upward, but there was a period of weakness between Q4 FY2024/3 and Q1 FY2025/3 owing to an increase in the number of business system development project contracts that were completed. However, this was by no means indicative of operational issues at the Company, and man-months worked for the three-month-period of Q2 grew to a record 4,666. The Management team senses that it may be returning back to normal progression.

Monthly unit price of orders is trending gradually upward on the back of sustained strong demand for IT human resources, rising steadily 2.9% YoY or 0.2% QoQ to JPY 826,000.

At the results briefing, the Company announced plans to open new sales offices in Sapporo and Hiroshima, and to aggressively expand sales activities in regional areas starting in H2 FY2025/3. It plans to promote the use of freelancers to clients outside of the major metropolitan areas, and also indicated the possibility of opening additional sales offices.



Source: Compiled by SIR from the Company IR material

■ IT freelance matching business (Japan) may be at its highest level

GEECHS gross profit (net revenue) is the agent fee, net sales minus compensation paid to IT freelancers, and the **take rate** is gross profit divided by net sales. With the introduction of the invoice system in October 2023, the Company took on the burden of a portion of the consumption tax related to IT freelancers, but it has managed to keep its take rate at around 17.7% since Q3 FY2024/3, the impact on earned profit will likely be limited because the take rate was revised to reflect the impact of the invoice system before it was introduced. In Q2 FY2025/3, the Company posted net sales of JPY 3,740 mn, of which JPY 662 mn was retained as gross profit (JPY 655 mn in Q2 FY2024/3).

New registrations in Q2 totaled 383, on par with Q2 FY2024/3, despite curbing advertising expenses. In addition to the ongoing friend referral campaign, the Company's improved brand awareness may also be contributing to this with a time delay. It is worth noting that the Company attracted nearly 400 new registrations in Q2 in a highly cost-efficient manner with a record low advertising expense ratio of 1.1%, as it cut advertising expenses in half YoY as part of its efforts to systematically reduce advertising expenses from 2H FY2024/3. With the continued effectiveness of its branding, the Management team believes that it is on track to exceed 1,600 new registrations for the year.

SIR conducted a comparative analysis of this over time from the perspective of profit gained per IT freelancer. GEECHS manages how well it secures IT freelancers, its source of earnings, using the following KPIs and discloses that information every half year. The average revenue per user (**ARPU**) is calculated as gross sales generated from orders from companies minus compensation paid to IT freelancers and other costs of sales of GEECHS. This is the average monthly unit price per IT freelancer, which is equivalent to JPY 141,000 for H1 FY2025/3, calculated by multiplying unit price of orders (JPY 826,000) by the take rate (17.6%). The **average engagement duration** for IT freelancers has also increased to 18.8 months (annualized), a record high, driven by improved engagement with IT freelancers. Multiplying both of these figures yields a life-time value (**LTV**) of JPY2,650,000, based on the average gross profit generated by an IT freelancer during their engagement. Thanks to the fact that advertising expenses were kept under control as planned, the average acquisition cost per IT freelancer (**CAC**) came to JPY466,000, below the JPY473,000 recorded in FY2022/3, and the **Unit Economics**, or return on IT freelancer acquisition cost, came to a record high of 5.7x.

As mentioned earlier, the Company controlled its advertising expense ratio at a reasonably appropriate level in the low 1% range. Furthermore, it worked to create a forward-looking business structure designed to support sustainable growth, such as by adding headcount to bolster its organization and improving internal training and development, while also systematically spending its budget, particularly on personnel expenses (which account for around 40% of SG&A expenses). As a result, H1 **segment profit** for the business rose 8.3% YoY to JPY 591 mn.

Note: *1 Until the previous year, each KPI was calculated based on the period average, but from the FY2024/3, calculations are based on ARPU, average duration, and CAC. In line with this change, the above figures for FY2023/3 also reflect the new calculation method.

*2 Average total engagement duration including project changes.

KPI of IT Freelance Matching Business (Japan)

KPI	Definition	FY2021/3	FY2022/3	FY2023/3	FY2024/3	FY2025/3 H1
ARPU (thousand yen)	Average monthly unit price (gross profit) per IT freelancer	119	123	130	141	141
Average engagement duration (months)	Average duration of engagement for an IT freelancer* ²	16.4	16.4	17.3	17.8	18.8
LTV (thousand yen)* ¹	Average gross profit generated by one IT freelancer during their engagement (= ARPU x Average engagement duration)	1,948	2,017	2,249	2,510	2,650
CAC (thousand yen)	Average acquisition cost per IT freelancer	510	473	998	1,036	466
Unit Economics* ¹	Return on IT freelancer acquisition cost (= LTV / CAC)	4.1	4.5	2.3	2.4	5.7

Source: Compiled by SIR from the Company IR material.

■ The "GEECHS Project-to-Freelance Ratio Report"* indicates sustained strong demand

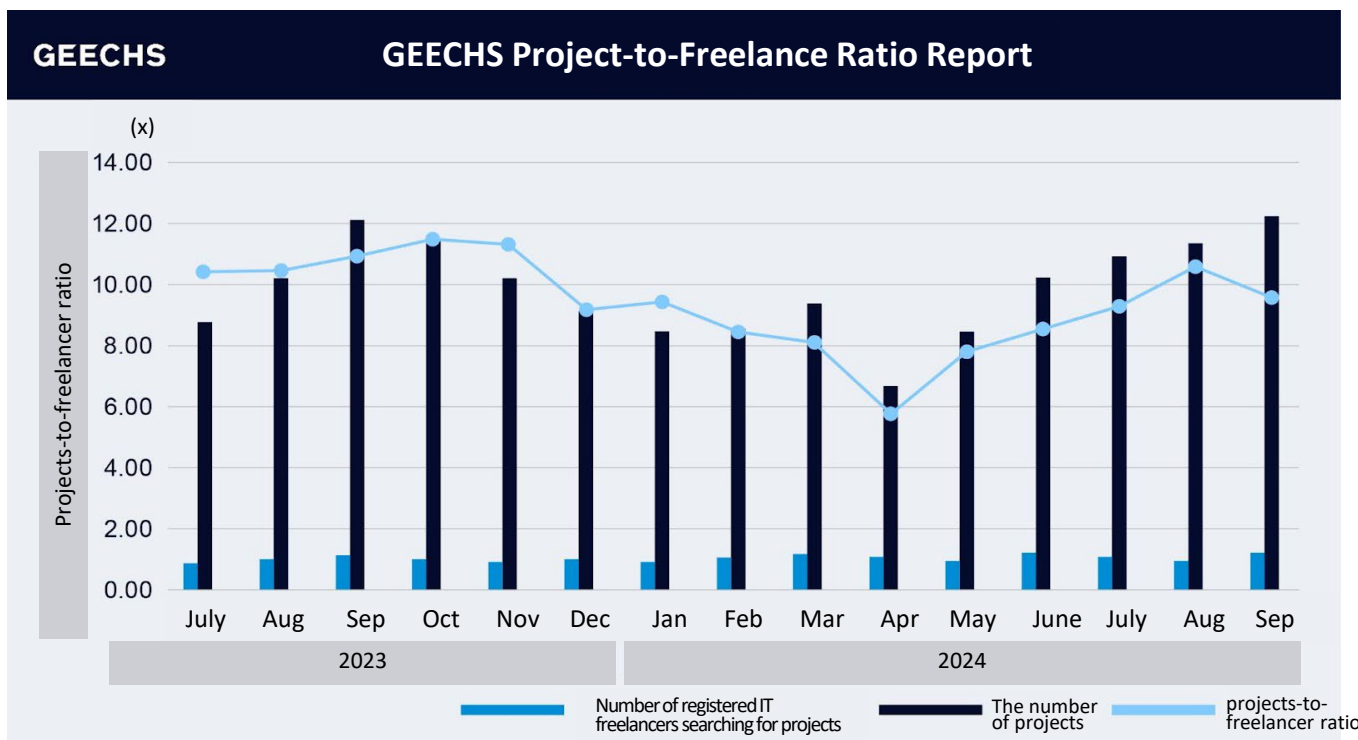
In Q2 FY2025/3 alone, the Company brought in 48 new customer companies, bringing the total to 1,707 companies as of the end of September. The number of freelance project listings from these companies on the Company's job search site **geechs job** (<https://geechs-job.com/>) fluctuates daily, but there were over 6,600 listings as of November 20.

GEECHS also announces its projects-to-freelancer ratio (ratio of projects that the Company handles to number of registered IT freelancers searching for projects) in its quarterly "GEECHS Project-to-Freelance Ratio Report"*. The ratio is not a KPI but offers a semi-macro perspective on demand in the IT freelance market. According to this report, the quarterly cumulative ratio for July-September 2024 was high at 9.66x. In addition, Java and TypeScript skills remain in high demand, with PHP and Python also gaining popularity.

Interestingly, the report also includes a trend forecast for the October-December 2024 period. According to the report, the Company expects (1) project count to increase from the latter half of October to November as in previous years, as more companies move to secure IT personnel for projects starting in January of the following year, (2) project count to increase as the retail industry and other sectors move toward DX in response to changes in purchasing processes and the chronic shortage of human resources, and (3) an increase in freelancers looking for projects set to start from January onward, similar to the increase in project count. In addition, the Management team believes that companies placing orders are increasingly taking the time to select the right IT freelancers under budget constraints. In particular, the Management is noticing a slight change in trends, with some internet service companies becoming more particular in their selection process, looking for specific type of people to bring on.

Given the continued strong demand as mentioned above, it is difficult to imagine the Company's number of man-months worked and unit price of orders will suddenly weaken. Accordingly, it is highly likely that the IT freelance matching business (Japan) will continue to expand steadily going forward.

* "GEECHS Project-to-Freelance Ratio Report" gives demand trends in the IT freelance market—Cumulative quarterly Projects-to-Freelancer Ratio hits 9.66x
https://geechs.com/newsrelease/20241107_ankenbairitsu/ *Japanese only



Source: The Company's website

Share price insights

1) The Ministry of Finance's interest rate data

https://www.mof.go.jp/jgbs/reference/interest_rate/index.htm

2) The Stock Market Data website

<https://stock-marketdata.com/riskpremium-japan.html>

3) The Cost of Capital website

<https://costofcapital.jp/beta/historicalbeta/>

■ Growth potential implied by current share price and DDM comes in below 4%

Despite earnings having bottomed in the previous fiscal year and the outlook for a firm recovery in earnings this fiscal year, GEECHS's shares are traded at historical lowest level. The Company also discloses IR information simultaneously in both Japanese and English with high transparency. Although a microcap stock, SIR believes that the Company's share is being left with a low valuation, even among low-priced stocks from a single-year fundamental perspective, with a forward dividend yield at the 2% level, rare for IT-related stocks, a forward P/E ratio below 13x, EV/EBITDA below 3.5x, and a P/B ratio below 1.3x based on figures at end-Q2. The Management team also views the loss of interest from the stock market as an issue.

The Company set a target dividend payout ratio of 30%, and has indicated that it may boost dividends in line with EPS growth. Accordingly, as in the previous follow up report, SIR used a Dividend Discount Model (DDM) to work out what level of dividend growth is factored into the latest share price. In calculating the Company's cost of shareholders' equity, the risk-free rate was set at 0.95% based on the Ministry of Finance's interest rate data*¹, the market risk premium was set at 5.33% based on the Stock Market Data website*², and the Company's beta value was set at 0.95 based on the Company's daily data for the past two years from the Cost of Capital website*³. As a result, the cost of shareholders' equity came to 6.14%. Next, the base dividend was set at JPY 10 for FY2025/3, with the perpetuity growth rate remaining the same for FY2026/3 onward. Using a 4.0% growth rate in the model, $JPY 10 \div (\text{cost of shareholders' equity of } 6.14\% - \text{dividend growth rate of } 4.0\%) = JPY 467$. The sensitivity analysis in the table below presents beta and perpetuity growth rate as variables, and the latest share price range (highlighted in yellow) implies combinations of the perpetuity growth rate and beta level.

SIR believes that this means the latest share price of JPY 412 412 implies a profit growth rate of 3 to 4%, but does not reflect the Company's sustainable growth rate of 7% (calculated as projected ROE of 10% x (1 - dividend payout ratio of 30%)). Furthermore, it also implies that there is substantial upside potential should the certainty of profit growth improve.

The latest share price growth position implied by the dividend discount model

		Forecasts				
		2025/3	2026/3	2027/3	2028/3	2029/3
Dividend per Share (JPY)		10.00	10.40	10.82	11.25	11.70
<i>DPS growth rate (same as Perpetuity Growth Rate)</i>			4.0%	4.0%	4.0%	4.0%
Calculating the cost of capital		DDM Analysis (JPY)				
Calculation of Debt Cost (End of 2024/3)		Present value of dividends for 5 years				
Interest expense	18 JPY mn	Perpetuity Growth Rate				
Interest-bearing debt (term-ave.)	1,591 JPY mn	Perpetuity Growth Rate × DPS in the final fiscal year				
Pre-tax Debt Costs	1.15%	Terminal Value				
Effective tax rate	46.4%	Present value of Terminal Value				
After-tax debt costs	0.62%	Theoretical value per Share				
Calculating the Cost of Capital (CAPM)						
Risk-Free Rates	1.077%					
Beta	0.95					
Equity Risk Premium	5.33%					
Cost of Equity	6.14%					
Interest-bearing debt	1,419					
Market Cap.(as of 11/21)	4,275					
Total	5,694					
	100.0%					
Weighted Average Cost of Capital	4.77%					
		Perpetuity Growth Rate				
		2.0%	3.0%	4.0%	4.5%	5.0%
	0.75	340	503	971	1,812	13,619
	0.80	317	452	788	1,255	3,082
	0.85	297	410	665	965	1,757
Beta	0.90	279	377	578	788	1,238
	0.95	264	349	512	668	961
	1.00	251	325	461	582	788
	1.05	240	305	420	517	671

Source: Compiled by SIR from the Company financial statements.

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