

GEECHS | 7060

TSE Standard

1Q Follow-up

Making steady progression in the IT freelance matching business (Japan)

◆**1Q FY2025/3 results review:** On August 9th, 2024, Geechs Inc. (hereafter, the "Company") announced its 1Q FY2025/3 earnings results. Net sales fell 2.0% YoY to ¥5,825 mn, EBITDA rose 7.2% YoY to ¥107 mn, and operating profit rose 175.8% YoY to ¥80 mn. The sharp rise in operating profit was attributable to the sale of G2 Studios (previous Game business) at the end of FY2024/3, which prevented 1Q FY2025/3 operating profit from being dragged down by the business as it did in 1Q FY2024/3, when it recorded an operating loss of ¥74 mn. On the other hand, progress versus plan for the first three months of FY2025/3 appeared slightly lackluster, coming in at 22% for net sales, 16% for EBITDA, and 15% for operating profit. However, existing businesses remained on track to grow in line with the Company's forecasts. Seeing that its share price did not fall after the 1Q results announcement, it is fair to say that the results were in line with both the Company's and the market's expectations.

◆**Full-year FY2025/3 earnings forecast:** In FY2025/3, the Company expects net sales to grow 11% YoY, EBITDA to rise 85% YoY, as well as a return to net profitability, 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, and a recovery in profitability of the IT freelance matching business (Overseas). It has not made any changes to its projections for EBITDA, operating profit, and ordinary profit to recover to the same level as seen in FY2023/3. Having set a target dividend payout ratio of 30%, the Company will likely continue to pay a dividend per-share of ¥10. If it is able to do that, it is highly likely to achieve an ROE in the 10% range.

◆**Share price insights:** 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. Although a microcap stock, the Company's shares offer a rare bargain valuation for an IT-related stock from a single-year fundamental perspective, with a forward dividend yield at the 2% level, a forward P/E ratio below 14x, EV/EBITDA below 4x, and a P/B ratio below 2x based on figures at end-1Q.

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 ¥453 implies a profit and dividend growth rate of around 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%)).

¥mn, %	Sales	YoY	EBITDA	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS(¥)	DPS(¥)
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
2024/3Q1	5,945	68.7	100	-	29	-	27	-	4	-	0.46	-
2025/3Q1	5,825	-2.0	107	7.2	80	175.8	84	200.9	58	-	5.70	-

Source: Compiled by SIR from the Company IR material. *EBITDA: Operating profit + Depreciation + Amortization of goodwill + Stock-based compensation expenses

GEECHS

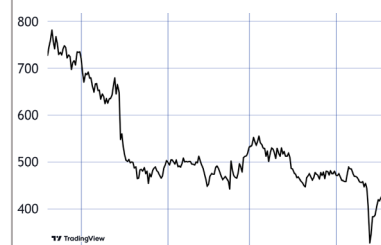
Focus Point

- 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 (8/28)	453
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 (¥ mn)	4,678
Equity ratio (24/6)	39.8%
CY2024/6 P/B (act)	1.68x
FY2025/3 P/E (CE)	13.9x
FY2024/3 ROE (act)	-41.5%
FY2025/3 DY (CE)	2.21%

Daily Stock Price Chart



Source: Trading view

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2025/3 1Q 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

By business segment, sales in **the IT freelance matching business (Japan)**, a key growth driver, rose 6.7% YoY to ¥3,694 mn, setting a new quarterly sales record. In terms of costs, although personnel expenses rose in line with business expansion, operating profit grew 4.5% YoY to ¥295 mn, as the Company was able to control advertising expenses within an appropriate level (*developments in the IT freelance matching business (Japan) are described in detail on the next page*).

The Australia-based Launch Group, which the Company acquired in January 2023, has been included in the Company's scope of consolidation since 1Q FY2024/3 and classified under **the IT freelance matching business (Overseas)** segment. Launch operates a human resource service business that specializes in casually employed workers and freelancers and an MSP business*, mainly in Sydney and Melbourne. In 1Q, segment sales rose 11.3% YoY to ¥2,048 mn but generated an operating loss of ¥36 mn, as demand for human resources from local customer companies (i.e. major global IT companies) was still undergoing recovery, while the business was in the process of restructuring as well as hiring career representatives and consultants. However, the management team explained that performance is on track to reach its forecast targets (sales of ¥10 bn, operating profit of ¥0).

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. With conditions normalizing following the COVID-19 pandemic, the number of offline non-business corporate IT study abroad programs is on the rise, with offshore development also steadily increasing. As a result, sales rose 37.5% YoY to ¥72 mn while generating an operating loss of ¥13 mn, but the management team is confident that the business will turn profitable from 2Q onward.

Segment Information

Segment	Business	¥ mn	FY2022/3	FY2023/3	FY2024/3	FY2025/3 CE	2024/3	2025/3	Change (%)
							Apr-Jun	Apr-Jun	
IT Freelance Matching Business (Japan)	IT freelancer and customer company matching business in Japan	Net Sales	10,767	12,763	14,089	15,800	3,460	3,694	6.8
		Operating Profit	997	1,060	1,144	1,280	282	295	4.6
		OP Margin	9.3%	8.3%	8.1%	8.1%	8.2%	8.0%	
IT Freelance Matching Business (Overseas)	IT freelancer and customer company matching business in Australia	Net Sales	-	-	7,162	10,000	1,840	2,048	11.3
		Operating Profit	-	-	(135)	0	(21)	(36)	Red Widen
		OP Margin	0.0%	0.0%	-1.9%	0.0%	-1.1%	-1.8%	
Seed Tech	Human resources development tool sales, IT study abroad program, and offshore development	Net Sales	116	176	282	400	52	72	38.5
		Operating Profit	(27)	(32)	(23)	50	(9)	(13)	Red Widen
		OP Margin	-23.1%	-18.0%	-8.2%	12.5%	-17.3%	-18.1%	
Other (Former x-Tech Business until 2023/3)	Marketing video production for golf club manufacturers, etc.	Net Sales	304	183	128	100	33	14	(57.6)
		Operating Profit	15	40	4	0	3	(9)	Turned Red
		OP Margin	4.9%	21.6%	3.4%	0.0%	9.1%	-64.3%	
G2 Studios (Former Game Business until 2023/3)	Commissioned game development and game title operation business	Net Sales	3,154	2,896	2,111	-	561	-	
		Operating Profit	584	121	(357)	-	(74)	-	
		OP Margin	18.5%	4.2%	-16.9%	0.0%	-13.2%	0.0%	
Total		Net Sales	14,340	15,998	23,739	26,300	5,945	5,825	(2.0)
		Operating Profit	1,134	589	90	550	29	80	175.9
		OP Margin	7.9%	3.7%	0.4%	2.1%	0.5%	1.4%	

Source: Compiled by SIR from the company IR materials.

Note: Applied Accounting Standard for Revenue Recognition and other standards starting in FY2023/3. Figures for FY2022/3 have been revised to reflect the retroactive application of these standards

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.

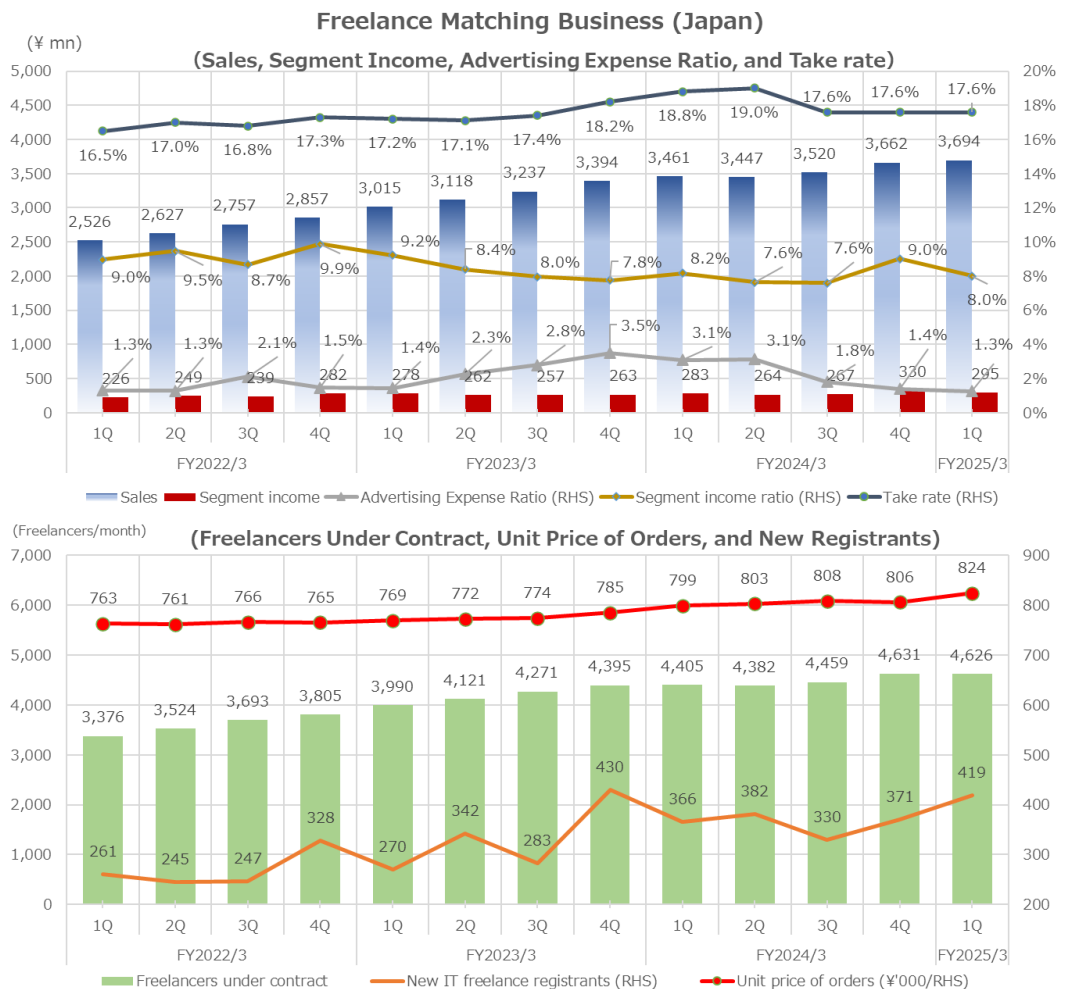
The volume of work that requires 1 person to work 1 month is 1 man-month, and the volume of work that requires 5 people to work 6 months is 30 man-months (5 x 6).

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 1Q FY2025/3, man-months worked was 4,626, and the average monthly unit price of orders came to a record-high ¥824,000, which translates into a transaction value (product of man-months worked and monthly unit price of orders) of ¥3,811 mn. This is close to the ¥3,694 mn that the Company reports as its net sales.

Man-months worked was trending upward, but fell slightly QoQ. The management team explains that this is attributable to a subtle change in the Company's customer profile, with the mix of operation system development companies increasing relative to internet service companies. Internet service companies tend to employ freelancers on a continuous basis, regardless of budget cycles, but major Slers and their subcontractors tend to end their contracts with freelancers at the fiscal year-end in March and start new contracts from the new fiscal year. The Company noted that it did not have any operational issues, adding that the sluggish numbers for man-months worked stemmed from seasonal factors, namely the increase in mix of development projects from operation system development companies, which tends to conclude at March end.

Monthly unit price of orders is trending gradually upward on the back of sustained strong demand for IT human resources, rising steadily 3.2% YoY or 2.2% QoQ to ¥824,000.



Source: Compiled by SIR from the Company IR material

■ Profitability of 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, and its take rate has remained around 17.6% for three consecutive quarters since 3Q FY2024/3. Even so, 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 1Q FY2025/3, the Company posted net sales of ¥3,694 mn, of which ¥650 mn was retained as gross profit (¥651 mn in 1Q FY2024/3).

New registrations in 1Q rose 14.5% YoY to 419, the second highest level after 430 in 4Q FY2023/3. 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 more than 400 new registrations in 1Q in a highly cost-efficient manner as it cut advertising expenses in half YoY as part of its efforts to systematically reduce advertising expenses from 2H FY2024/3. This brought its advertising expense ratio to 1.3%, the same level it delivered in 1H FY2022/3.

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 Company did not disclose this information in 1Q, but it can be estimated to a certain degree. For example, 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 ¥145,000 for 1Q FY2025/3, calculated by multiplying unit price of orders (¥824,000) by the take rate (17.6%). From here, annualized estimates can be made. The Company does not disclose the **average engagement duration** for IT freelancers, but assuming this is 18 months, in line with the previous fiscal year, the lifetime value (**LTV**) based on average gross profit generated by an IT freelancer during their engagement is estimated to be around ¥2,610,000. Assuming that the average acquisition cost per IT freelancer (**CAC**) is kept at around ¥480,000, the same level as in FY2022/3, its **Unit Economics**, or return on IT freelancer acquisition cost, is estimated to be around a record-high 5.4x.

As mentioned earlier, the Company controlled its advertising expense ratio at a reasonably appropriate level of 1.3%. 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, 1Q **segment profit** for the business rose 4.5% YoY to ¥296 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
ARPU (thousand yen)	Average monthly unit price (gross profit) per IT freelancer	119	123	130	141
Average engagement duration (months)	Average duration of engagement for an IT freelancer* ²	16.4	16.4	17.3	17.8
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
CAC (thousand yen)	Average acquisition cost per IT freelancer	510	473	998	1,036
Unit Economics* ¹	Return on IT freelancer acquisition cost (= LTV / CAC)	4.1	4.5	2.3	2.4

Source: Compiled by SIR from the Company IR material.

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

In 1Q FY2025/3 alone, the Company brought in 37 new customer companies, bringing the total to 1,659 companies as of the end of June. 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 6,200 listings as of August 22.

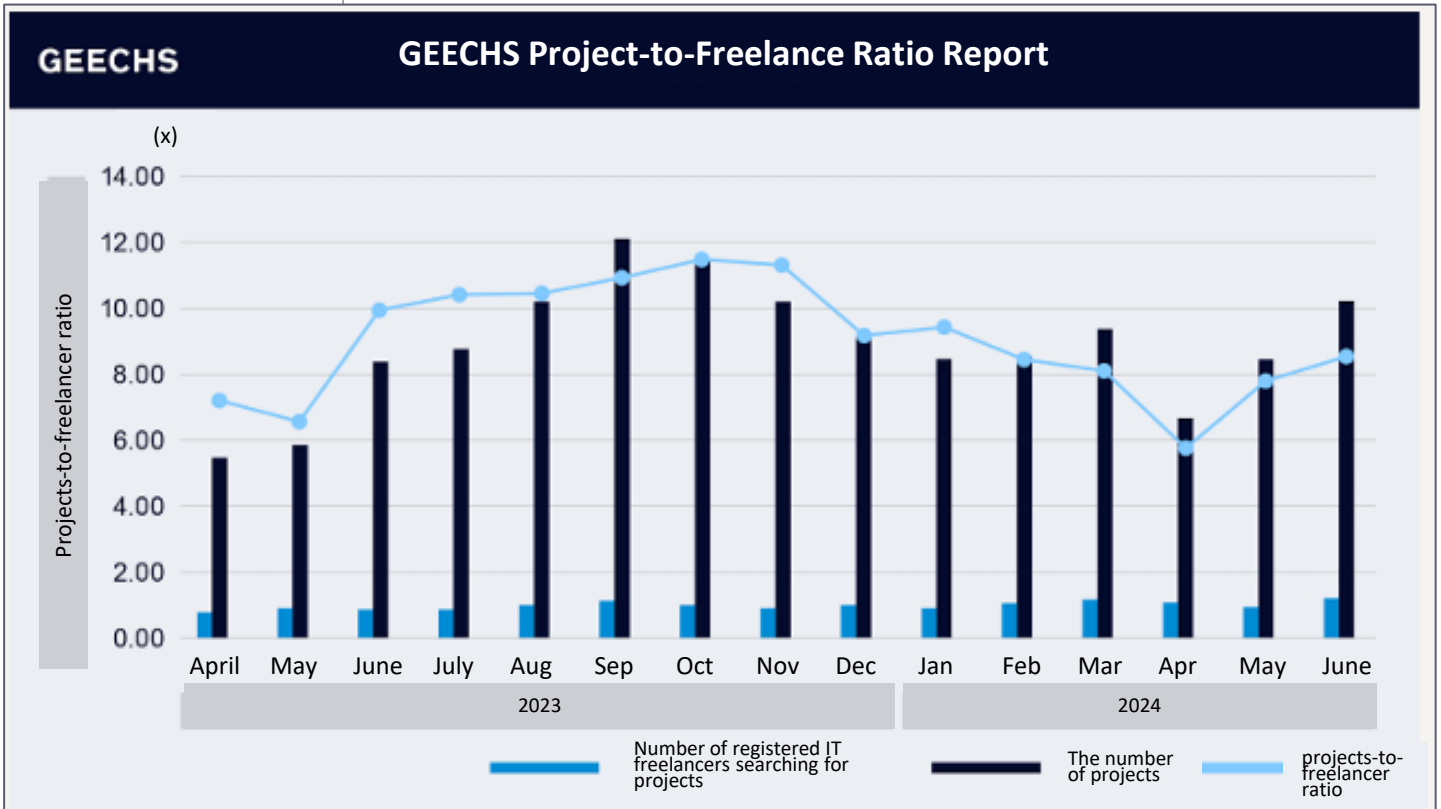
GEECHS also announces its projects-to-freelancer ratio (ratio of projects that the Company handles to number of registered IT freelancers searching for projects) in its quarterly "GEECHS Project-to-Freelance Ratio Report"*. The ratio is not a KPI but offers a semi-macro perspective on demand in the IT freelance market. According to this report, the quarterly cumulative ratio for April-June 2024 was 7.50x. In addition, Java and PHP skills remain in high demand, with TypeScript also gaining popularity.

Interestingly, the report also includes a trend forecast for the July-September 2024 period. First, the Company expects the number of projects to remain flat from July to August, and then to gradually increase from September. Secondly, it expects the number of projects to rise in line with the digital transformation of the construction industry, which is aimed at streamlining operations and reducing manpower, in order to address the aging workforce and labor shortages in the construction industry, otherwise known as the "2024 problem in the construction industry", as well as to comply with the "Work Style Reform-Related Act" to combat long working hours. Finally, the Company expects the number of freelancers searching for projects come in flat in July, then gradually increase from mid-August onward, as it anticipates an increase in freelancers looking for their next project after completing their existing projects at the end of September.

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 7.50x

https://geechs.com/newrelease/20240808_anke nbairitsu/



Source: The Company's website

Share price insights

■ Growth potential implied by the DDM only comes out to around 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, the Company's shares offer a rare bargain valuation for an IT-related stock from a single-year fundamental perspective, with a forward dividend yield at the 2% level, a forward P/E ratio below 14x, EV/EBITDA below 4x, and a P/B ratio below 2x based on figures at end-1Q.

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 (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 0.90% based on the Ministry of Finance's interest rate data^{*1}, the market risk premium was set at 5.50% based on the Stock Market Data website^{*2}, and the Company's beta value was set at 0.98 based on the Company's daily data for the past two years from the Cost of Capital website^{*3}. One point to note is that the beta value of the Company's stock fluctuates greatly depending on the timeframe and frequency. For the latest five-year period, the daily value is 1.26, the weekly value is 1.07, and the monthly value is 0.96, but for the latest two-year period, these values are 0.98, 0.48, and 0.12, respectively. In this instance, SIR will use the daily beta for the latest two-year period, when the Company restructured its business. As a result, the cost of shareholders' equity came to 6.29%. Next, the base dividend was set at ¥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, $¥10 \div (\text{cost of shareholders' equity of } 6.30\% - \text{dividend growth rate of } 4.0\%) = ¥435$. 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 ¥453 implies around 4% profit growth, 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%)), and that there is significant room for its share price to appreciate.

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	
DPS growth rate (same as Perpetuity Growth Rate)			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	1.1%	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)		Sensitivity analysis					
Risk-Free Rates	0.900%	Perpetuity Growth Rate					
Beta	0.98	2.0%	3.0%	4.0%	4.5%	5.0%	
Equity Risk Premium	5.50%	0.60	409	747	4,466	-2,972	-1,113
Cost of Equity	6.29%	0.70	336	526	1,224	3,668	-3,663
Interest-bearing debt	1,505	0.80	287	411	726	1,178	3,138
Market Cap.	4,678	0.90	252	340	524	717	1,138
Total	6,183	1.00	226	293	414	523	709
Weighted Average Cost of Capital	4.91%	1.10	206	258	345	416	522
		1.20	190	232	298	348	417

Source: Compiled by SIR from the Company financial statements.

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