



GEECHS | 7060

TSE Standard

IT freelance matching business (Overseas): Just a matter of time before all the bad news has come out?

◆ Q3 FY2025/3 results review:

On February 14, 2025, Geechs Inc. (hereafter, "the Company") announced its Q3(9M) FY2025/3 earnings results. Net sales rose 5.2% YoY to JPY 18,705 mn, EBITDA rose 67% YoY to JPY 440 mn, and operating profit rose 503% YoY to JPY 348 mn. This reflected steady growth in the core IT freelance matching business (Japan), reduced losses in the IT freelance matching business (Overseas), improved profitability in the Seed Tech business, and an end to losses from G2 Studios (formerly the Game business) following its sale at the end of FY2024/3. There were no negative developments, and results were largely in line with the Company's full-year FY2025/3 earnings forecast.

◆ Maintained full-year FY2025/3 earnings forecast:

While turning a profit in the IT freelance matching business (Overseas) and establishing regular profitability in the Seed Tech business may slip into FY2026/3, the Company has maintained its initial FY2025/3 earnings forecast calling for an 11% YoY increase in net sales, an 85% YoY increase in EBITDA, and a return to net profitability, based on cumulative Q3 results, the steady expansion of the IT freelance matching business (Japan), and the elimination of unprofitable businesses. The Company will likely continue to pay a DPS of JPY 10 along with a target dividend payout ratio of 30%. Once it is able to do that, it is highly likely to achieve an ROE in the 10% range.

◆ New initiatives for business expansion

Geechs established branch offices in Hokkaido and Hiroshima in January 2025, expanding its sales base to a total of six locations in order to meet the needs of local IT companies and IT personnel. In addition, it acquired Alive's profitable business divisions only (annual sales of approximately JPY 600 mn), which provides IT solution services to NTT Group customers, for roughly 1x of price-to-sales ratio and made it a consolidated subsidiary in February. This has opened up a new path for the Company to supply IT personnel to NTT Group companies, which it had been unable to make a customer despite its various efforts to date. The Company plans to continue pursuing business expansion opportunities through M&A deals, while also working to improve profitability in its existing businesses and reorganize its business portfolio, with the aim of strengthening its overall earnings power.

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 3Qs	17,787	50.7	263	-	57	(85.1)	49	(86.4)	(103)	-	(10.05)	-
2025/3 3Qs	18,705	5.2	440	66.9	348	502.7	347	607.5	261	-	25.29	-

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.

Q3 Follow-up

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 (2/18)	400
52WH (24/4/10)	567
52WL (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)	4,130
Equity ratio (24/12)	41.6%
CY2024/12 P/B (act)	1.39x
FY2025/3 P/E (CE)	12.3x
FY2024/3 ROE (act)	-41.5%
FY2025/3 DY (CE)	2.50%

Daily Stock Price Chart (One year)



Source: Trading view

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◆Share price insights:

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 400 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.

■ Acquisition of Alive Inc. paves the path toward supplying IT personnel to NTT Group companies

On January 23, 2025, Geechs announced that it acquired all shares of Alive Inc. for JPY 596 mn and make it a consolidated subsidiary effective February 14, 2025. Alive provides IT solution services to NTT Group companies, including NTT Docomo. Alive's disclosed FY2023/12 results show net sales of JPY 697 mn, ordinary profit of JPY 0.1 mn, net loss of JPY 2.7 mn, and net assets of JPY 132 mn. A simple calculation would show that the Company would record JPY 463 mn in goodwill, but details such as the amortization period, the impacts on short-term earnings and business segment classification will remain to be seen until the full-year FY2025/3 results and FY2026/3 earnings forecast are disclosed in May.

Geechs management explained that the aim of the acquisition was not only to gain access to the 40 or so IT engineers with strong consulting and technical skills, but also to acquire the long-standing business relationships and trust that Alive had built with its NTT Group customers. The Company had no business dealings with NTT Docomo, with no new business opportunities opening up despite its various sales efforts. While this is not an isolated case and is an inescapable industry practice, the Company made the management decision to acquire new channels for supplying IT engineers and customer accounts by non-organically incorporating Alive, which already had customer accounts with prominent enterprise companies like the NTT Group.

Expected synergies include: (1) Creating a new IT personnel supply model, such as by using the Company's database and forming a hybrid team of in-house engineers and IT freelancers; and (2) striving for further business growth by enhancing recruitment based on the Company's brand power while leveraging Alive's employee training experience and insights.

Judging from the press release, it appears that the Company acquired an unprofitable company at 4.5x of P/B ratio, it is not surprising that some are questioning the appropriateness of the acquisition price. The management team explained that the acquisition only involved the profitable divisions of Alive's business (the IT solution service business and approximately 40 IT engineers), and the unprofitable division was spun off and retained by the previous owner. It further emphasized that Alive's post-acquisition profit contribution would be greater than the disclosed financial information, and that it was acquired at a fair price in accordance with the Company's basic M&A policy. The Company funded the acquisition via debt, with no plans for equity financing.

According to Geechs management, Alive's IT solution service business generates monthly sales of around JPY 50 mn, bringing annual sales of around JPY 600 mn with a profit. Accordingly, SIR believes that the price-to-sales ratio of roughly 1x for the acquisition is not necessarily overpriced.

Basic M&A Policy~Target scopes and companies for M&A in alignment with the mid-term growth strategy.

M&A Target Scope	Potential Company	Criteria
DX/IT Human Resources, Organizational Consulting	<ul style="list-style-type: none"> Companies with proven track record and expertise in strategic planning and execution Sales 500 million yen and above 	<ul style="list-style-type: none"> Expected group synergies Reasonable acquisition price (No loss of goodwill) Expected to contribute to sales and profit at an early stage
IT Consulting	<ul style="list-style-type: none"> Companies with an excellent customer base Sales 500 million yen and above 	
System Development	<ul style="list-style-type: none"> Companies possessing technological capabilities Companies with business succession needs Sales 500 million yen and above 	

Source: the Company IR materials.

2025/3 Q3 Results Review

■ Overview: Generally in line with plan

On a company-wide basis, net sales in the three-month-period of Q3 (October-December) rose 11.1% YoY for a quarterly record high of JPY6,521 mn, with operating profit improving substantially from a loss of JPY 47 mn a year earlier to a profit of JPY 154 mn, while net profit improved significantly from a loss of JPY 92 mn to a profit of JPY 96 mn, partly driven by the absence of losses in the former Game business. As a reference, operating profit growth excluding the former Game business came in at a strong 137% YoY.

By business segment, sales in **the IT freelance matching business (Japan)**, a key growth driver, rose 10.5% YoY to JPY 3,889 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 24.7% YoY to JPY 333 mn, as employee productivity improved and the Company was able to keep advertising expenses under control at around 1.2% of sales.

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. Sales increased 45.1% YoY to JPY 2,541 mn thanks to continued growth in MSP sales. However, the IT staffing and placement business faced difficulties, resulting in an operating loss of JPY 19 mn, although this is an improvement from the JPY 57 mn loss in Q2. The Company already has a plan in place to streamline its workforce and optimize costs, and the management team believes that the business environment will improve from the second half of the year, as more and more government-related recruitment listings have started to emerge. SIR also believes that it is only a matter of time before this business becomes profitable, and that the possibility of it resurfacing as a factor contributing to a valuation discount is low.

Segment Information

Segment	Business	(¥ mn)	FY2024/3	FY2025/3 CE	2024/3 Apr-Jun	2025/3 Apr-Jun	YoY (%)	2024/3 Jul-Sep	2025/3 Jul-Sep	YoY (%)	2024/3 Oct-Dec	2025/3 Oct-Dec	YoY (%)
IT Freelance Matching Business (Japan)	IT freelancer and customer company matching business in Japan	Net Sales	14,089	15,800	3,460	3,694	6.8	3,447	3,740	8.5	3,519	3,889	10.5
		Operating Profit	1,144	1,280	282	295	4.6	263	296	12.5	267	333	24.7
		OP Margin	8.1%	8.1%	8.2%	8.0%		7.6%	7.9%		7.6%	8.6%	
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	1,864	2,507	34.5	1,751	2,541	45.1
		Operating Profit	(135)	0	(21)	(36)	Loss Widen	(5)	(57)	Loss Widen	(54)	(19)	Loss Shrunk
		OP Margin	-1.9%	0.0%	-1.1%	-1.8%		-0.3%	-2.3%		-3.1%	-0.7%	
Seed Tech	Human resources development tool sales, IT study abroad program, and offshore development	Net Sales	282	400	52	72	38.5	76	89	17.4	68	69	1.5
		Operating Profit	(23)	50	(9)	(13)	Loss Widen	7	16	135.2	(18)	(10)	Loss Shrunk
		OP Margin	-8.2%	12.5%	-17.3%	-18.1%		9.2%	18.0%		-26.5%	-14.5%	
Other (Former x-Tech Business until 2023/3)	Marketing video production for golf club manufacturers, etc.	Net Sales	128	100	33	14	(57.6)	35	24	(30.1)	39	28	(28.2)
		Operating Profit	4	0	3	(9)	Turned Loss	3	(5)	Turned Loss	1	0	-
		OP Margin	3.4%	0.0%	9.1%	-64.3%		8.6%	-20.8%		2.6%	0.0%	
G2 Studios (Former Game Business until 2023/3)	Commissioned game development and game title operation business	Net Sales	2,111	-	561	-		557	-		505	-	
		Operating Profit	(357)	-	(74)	-		(62)	-		(112)	-	
		OP Margin	-16.9%	0.0%	-13.2%	0.0%		-11.1%	0.0%		-22.2%	0.0%	
Total		Net Sales	23,739	26,300	5,945	5,825	(2.0)	5,971	6,358	6.5	5,869	6,521	11.1
		Operating Profit	90	550	29	80	175.9	75	112	49.0	(47)	154	Turned Profit
		OP Margin	0.4%	2.1%	0.5%	1.4%		1.3%	1.8%		-0.8%	2.4%	

Source: Compiled by SIR from the company IR materials.

2025/3 Q4 Earnings Forecast

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. New orders for its offshore development lab that was expected to be booked in Q3 were postponed due to customer constraints, with sales not being recorded in FY2025/3 while expenses were incurred. As a result, the business recorded an operating loss of JPY 19 mn, but the Company expects to receive orders for the project in FY2026/3.

■ IT freelance matching business (Japan) expected to drive results

The Company's full-year FY2025/3 earnings forecast calls for the IT freelance matching business (Overseas) to break even and the Seed Tech business to turn a profit, but this appears to be a tall order with only three months remaining. However, as will be explained on the next page, earnings in the IT freelance matching business (Japan) are expanding steadily, and there is a strong possibility that this will offset the underperformance of the other two businesses.

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).

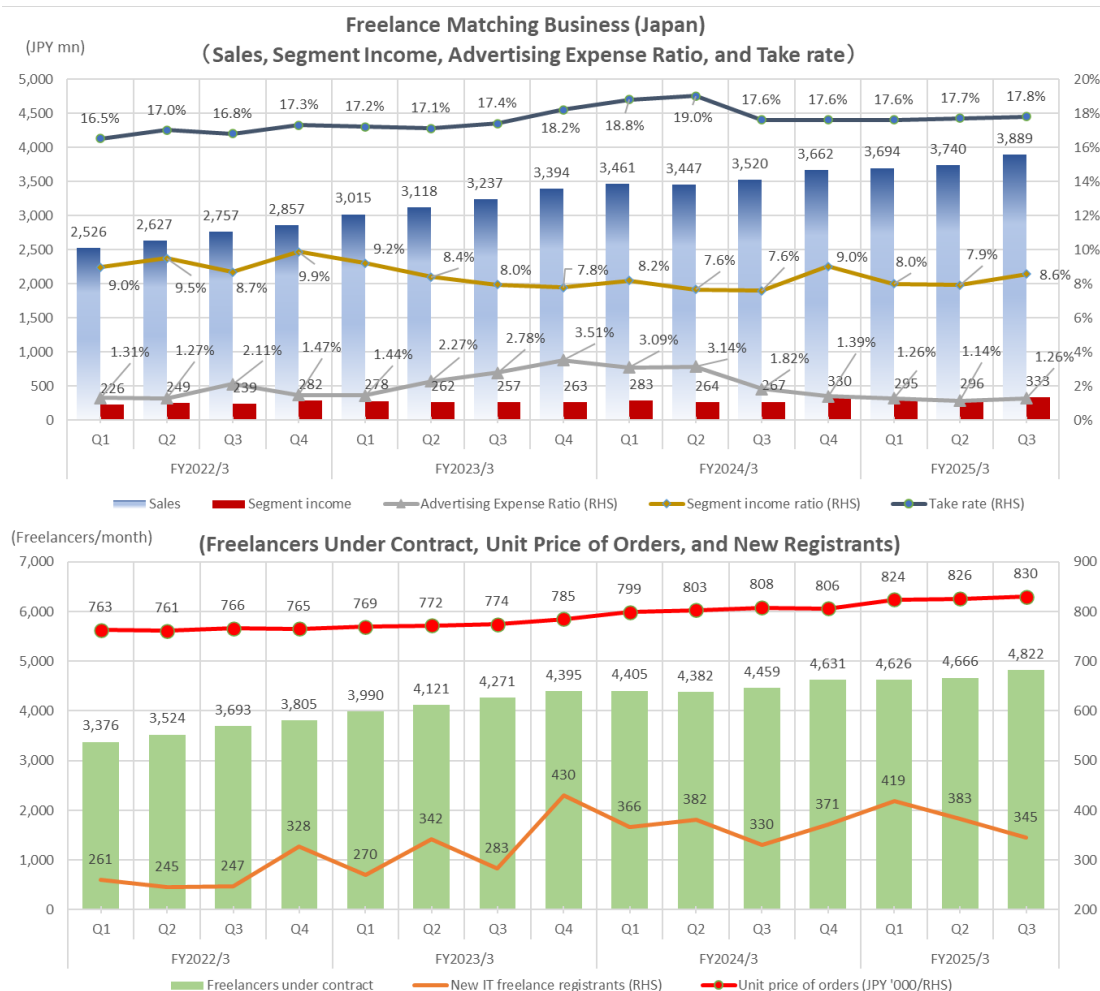
** GEECHS gross profit (net revenue) is the agent fee, net sales minus compensation paid to IT freelancers, and the **take rate** is gross profit divided by net sales.

■ 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 the three-month-period of Q3 FY2025/3, **man-months worked** came to a record high 4,822, reflecting the Company's ongoing efforts to strengthen its relationships with IT freelancers. **Monthly unit price of orders** is trending gradually upward on the back of sustained strong demand for IT human resources, rising steadily 2.8% YoY or 0.5% QoQ to JPY 830,000. Multiplying these figures results in a transaction value of JPY 4,002 mn. This is close to the JPY 3,889 mn that the Company reports as its net sales. The **take rate**** also remained stable as the Company had expected, coming in at 17.8% in Q3.

New registrants progressed at a moderate pace as planned, reaching around the same level as the previous year at 345.

In January 2025, the Company opened branch offices in Hokkaido and Hiroshima as new sales bases. With a total of six locations in Japan, the Company is expanding its sales base and promoting the use of IT freelancers to client companies outside of major metropolitan areas. Through its sales activities outside of urban areas, the Company is working to meet the needs of local IT companies and IT personnel.



Source: Compiled by SIR from the Company IR material

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

In Q3 FY2025/3 alone, the Company brought in 47 new customer companies, bringing the total to 1,754 companies as of the end of December 2024. 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 the number had reached nearly 7,200 listings as of February 18, 2025.

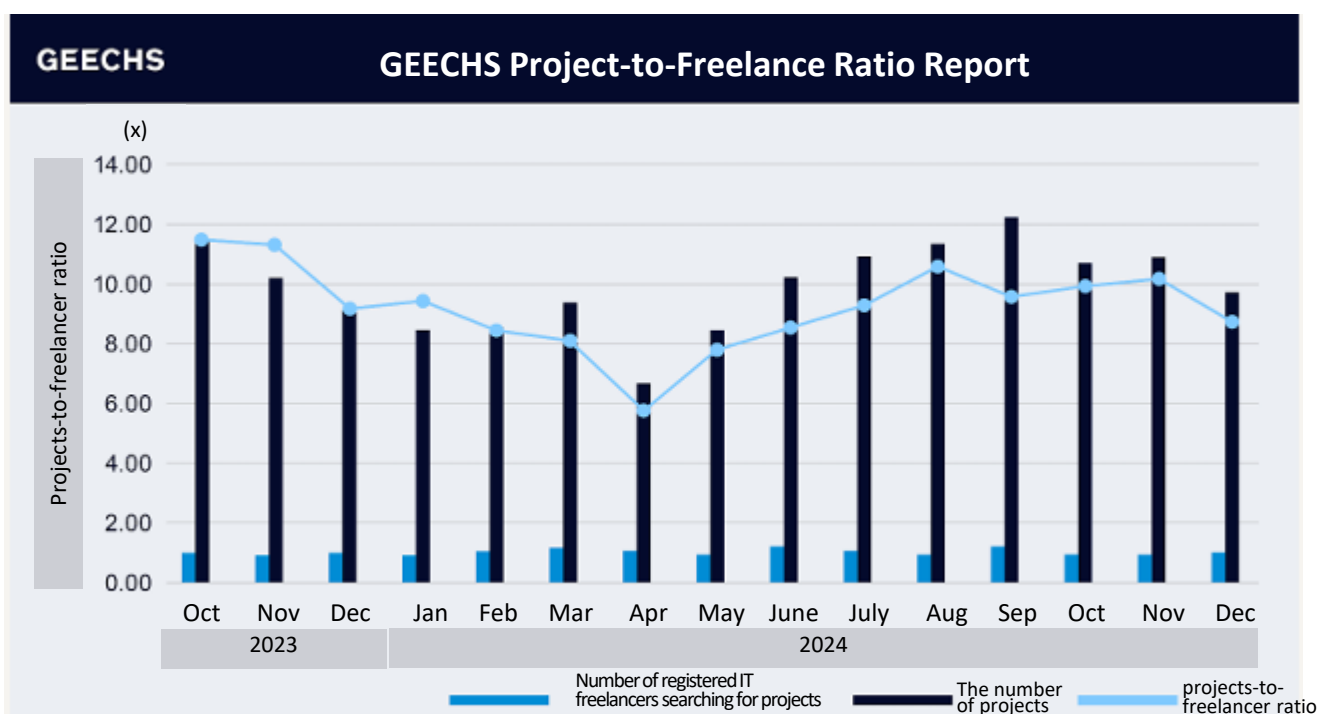
GEECHS also announces its projects-to-freelancer ratio (ratio of projects that the Company handles to number of registered IT freelancers searching for projects) in its quarterly "GEECHS Project-to-Freelance Ratio Report"*. The ratio is not a KPI but offers a semi-macro perspective on demand in the IT freelance market. According to this report, the quarterly cumulative ratio for October-December 2024 was high at 9.63x. In addition, Python and TypeScript continue to be in high demand as skills sought by companies, following on from the previous quarter. TypeScript is increasingly being used to replace JavaScript, and engineers who can work on both the front end (developing user-facing areas such as web services and app user interfaces) and the back end (developing the database and others) tend to command higher unit prices.

Interestingly, the report also includes a trend forecast for the January-March 2025 period. According to the report, the Company expects (1) project count to remain flat in January and February and then increase from March onward as companies work to secure staff and launch new projects toward the end of the fiscal year, (2) a continued increase in projects related to DX promotion and the use of generated AI, with projects related to cloud optimization, in which AWS engineers and others take part, to grow in the market, and (3) an increase in freelancers looking for projects set to start from April onward, similar to the increase in project count.

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 9.63x

https://geechs.com/newsrelease/20250212_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>

■ Growth potential implied by current share price and DDM comes about 3.5%

Despite earnings having bottomed in the previous fiscal year and the outlook for a firm recovery in earnings this fiscal year, GEECHS's shares has not been able to get out of 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 12x, EV/EBITDA below 3.1x, and a P/B ratio of 1.4x based on figures at end-Q3. 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 1.39% based on the Ministry of Finance's interest rate data¹, the market risk premium was set at 5.14% based on the Stock Market Data website², and the Company's beta value was set at 0.976, based on the Company's daily stock data for the past three years from SPEEDA. As a result, the cost of shareholders' equity came to 6.41%. Next, the base dividend was set at JPY 10 for FY2025/3, with the perpetuity growth rate remaining the same for FY2026/3 onward. Based on this, after adjusting the perpetuity growth rate to bring the theoretical value per share closer to the latest share price of JPY 400, around 3.5% perpetuity growth rate yields theoretical value per share of JPY 382. The sensitivity analysis in the table below provides a data table with beta and perpetuity growth rate as variables, and indicates the beta and perpetuity growth rate levels implied by the latest share price range (highlighted in light blue).

SIR believes that this means the latest share price of JPY 400 implies a profit growth rate of 3 to 4%, but the stock market does not expect the Company's sustainable growth rate of 7% (calculated as projected ROE of 10% x (1 - dividend payout ratio of 30%)). Besides, it implies that there is substantial upside potential should the certainty of profit growth improve.

Growth position implied by the latest share price on the dividend discount model

		Forecasts				
		2025/3	2026/3	2027/3	2028/3	2029/3
Dividend per Share (JPY)		10.00	10.35	10.71	11.09	11.48
DPS growth rate (same as Perpetuity Growth Rate)			3.5%	3.5%	3.5%	3.5%
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)		Sensitivity analysis				
Risk-Free Rates		Perpetuity Growth Rate				
Beta						
Equity Risk Premium						
Cost of Equity						
Interest-bearing debt	1,376	25.0%				
Market Cap.(as of 2/18)	4,130	75.0%				
Total	5,506	100.0%				
Weighted Average Cost of Capital		4.96%				

Beta		2.5%	3.0%	3.5%	4.0%	4.5%
	0.88	333	390	472	598	814
	0.90	321	375	449	561	747
	0.93	311	360	429	529	690
	0.95	301	347	410	500	642
	0.98	292	335	393	475	600
	1.00	283	323	377	452	563
	1.03	275	313	362	431	531

Source: Compiled by SIR from the Company financial statements.

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