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Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2023 [Japan GAAP]

November 10, 2022

Company name: GEECHS Inc.

Listing: Tokyo Stock Exchange

Securities code: 7060

URL: <https://geechs.com>

Representative: Naruhito Sonehara, President & CEO

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Scheduled date to file quarterly report: November 11, 2022 Scheduled date to commence payment of dividends: —

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen)

1. Consolidated financial results for the second quarter of the fiscal year ending March 31, 2023

(from April 1 to September 30, 2022)

(1) Consolidated operating results (cumulative)

(Percentages denote year-on-year changes)

	Sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q2 of FY3/23	2,568	(3.9)	260	(59.9)	263	(59.6)	145	(65.2)
Q2 of FY3/22	2,672	98.2	648	138.2	652	158.9	419	214.2

Note: Comprehensive income Q2 of FY3/23 152million yen (63.6%) Q2 of FY3/22 417million yen (210.9%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
Q2 of FY3/23	13.87	13.73
Q2 of FY3/22	39.97	39.32

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
Q2 of FY3/23	6,017	4,541	74.7
FY3/22	5,874	4,470	75.7

Reference: Shareholders' equity Q2 of FY3/23 4,491million yen FY3/22 4,444million yen

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY3/22	—	0.00	—	10.00	10.00
FY3/23	—	0.00	—	—	—
FY3/23 (forecast)	—	—	—	10.00	10.00

Note: Revisions from the most recently announced dividends forecast : None

3. Consolidated earnings forecast for the fiscal year ending March 31, 2023
 (from April 1, 2022 to March 31, 2023)

(Percentages denote year-on-year changes)

	Sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	5,400	0.2	450	(60.3)	450	(60.4)	260	(63.1)	24.69

Note: Revisions from the most recently announced earnings forecast: Yes

[Notes]

(1) Changes in significant subsidiaries during the current period : None

(Changes in specified subsidiaries resulting in the change in scope of consolidation)

New — companies (Company name) — , Excluded — companies (Company name) —

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements : None

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

(i) Changes in accounting policies due to the application of new or revised accounting standards : None

(ii) Changes in accounting policies other than (i) above : None

(iii) Changes in accounting estimates : None

(iv) Restatements : None

(4) Number of issued shares (common stock)

(i) Number of shares issued at end of period (including treasury shares)

FY3/23 Q2	10,569,640	FY3/22	10,564,840
FY3/23 Q2	40,151	FY3/22	40,151
FY3/23 Q2	10,525,503	FY3/22 Q2	10,484,862

(ii) Number of treasury shares at end of period

(iii) Average number of shares during period (cumulative from beginning of fiscal year)

* This quarterly financial results report is not subject to quarterly review procedures by certified public accountants or auditing firms.

* Explanation of the proper use of financial results forecasts and other notes:

The forward-looking statements contained in this material are based on information currently available to the Company and certain assumptions deemed reasonable. Accordingly, actual results may differ materially due to a number of different factors.

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1. Qualitative information on quarterly financial results

(1) Explanation of operating results

Forward-looking statements in the document are based on our judgments as of the end of the second quarter of the current consolidated accounting period.

(i) Overview of operating results

Under the Group's grand vision to make the biggest impression in the 21st century, GEECHS is using its human resources infrastructure, such as the development of IT engineers who are active globally and its database of IT freelancers, to proactively understand the corporate behavior and lifestyles of people that are rapidly changing with more widespread use of the Internet. With our strength in responding to these changes, we aim to perpetually increase our corporate value by constantly growing through the creation and evolution of the services we provide. The Group consists of four business segments, including four subsidiaries. The business segments are classified into the IT Freelance Matching Business, the Game Business, the Seed Tech Business, and the x-Tech Business.

Segment classifications were changed from the first quarter of the current consolidated accounting period. The figures for the same quarter of the previous year have been adjusted in line with the segment reclassification for comparative analysis.

Despite getting back to some form of normality following the easing of pandemic restrictions during the first six months from April 1 to September 30 2022, the situation remains somewhat uncertain due to downside risks to the economy, including the continued depreciation of the yen in foreign exchange markets and the rise in prices associated with increased cost of raw materials. With digital transformation and initiatives utilizing IT taking place to create new ways of doing things in all sectors, we recognize that there is an ever greater need to strengthen our IT freelancers and their IT skills.

Under these circumstances, the Group has been continuously implementing various measures based on the policies set forth in the G100 medium-term management plan (running from fiscal 2022 to 2025) announced on May 14, 2021. The Group has built a business structure that fulfills its role as a technology resource sharing platform to capture the demands of those companies making a digital shift and those individuals hoping to find a new way of working.

Against this backdrop, the Group recorded end of second quarter consolidated sales of ¥2,568 million (down 3.9% year-on-year), operating income of ¥260 million (down 59.9% year-on-year), ordinary income of ¥263 million (down 59.6% year-on-year), and profit attributable to owners of parent of ¥145 million (down 65.2% year-on-year).

(ii) Results by business segment

IT Freelance Matching Business

Business performed well in this segment on the back of continued high demand from companies. Following the success of a number of measures, such as strategic advertising investment using the face of actor and TV personality Koji Kato, strengthening the sales system, and a friend referral campaign, the number of new business partners has steadily increased.

As a result, sales in this business segment at the end of the second quarter were ¥1,049 million (up 21.9% year-on-year) with a segment income of ¥539 million (up 13.5% year-on-year).

Game Business

In the Game Business, the Group operates five titles, including *IDOLiSH7*, distributed by Bandai Namco Online Inc., and *My Hero Academia: Ultra Impact* distributed by Bandai Namco Entertainment Inc. We are also developing four new titles, focusing on controlling our resources appropriately as development of the games unfolds.

As a result, sales in this business segment at the end of the second quarter were ¥1,348 million (down 18.5% year-on-year) with a segment loss of ¥29.1 million (recorded segment profit of ¥368 million in the same period of the previous year).

Seed Tech Business

With bases in Japan and the Philippines, the Seed Tech Business is developing its business through strong collaboration with a focus on the development of IT freelancers. The segment provides Sodatech, a SaaS-type digital transformation/IT freelancer development service for corporations, a newly resumed IT study abroad business on the island of Cebu in the Philippines, and a contracted

offshore development business.

As a result, sales in this business segment at the end of the second quarter were ¥74.2 million (up 3.8% year-on-year) with a segment loss of ¥33.6 million (recorded segment profit of ¥8.0 million in the previous fiscal year).

x-Tech Business

In the x-Tech Business, we aim to be a technology partner for business model transformation by utilizing cutting-edge technologies and methods to bring together technology with data. In this segment we provide digital marketing and direct-to-consumer support mainly in the field of sports, such as in the golf industry.

As a result, sales in this business segment at the end of the second quarter were ¥102 million (up 20.2% year-on-year) with a segment profit of ¥27.0 million (up 106.7% year-on-year).

(2) Explanation of financial position

(i) Assets, liabilities and shareholders' equity

Current assets

The balance of current assets at the end of the second quarter increased by ¥129 million from the end of the previous fiscal year to ¥5,653 million. This was mainly due to an increase of ¥256 million in accounts receivable and contract assets, and an increase of ¥80.9 million in prepaid expenses, despite a decrease of ¥198 million in cash and deposits.

Fixed assets

The balance of fixed assets at the end of the second quarter increased by ¥13.5 million from the end of the previous fiscal year to ¥363 million. This was mainly due to an increase of ¥10.5 million in investment securities and an increase of ¥8.1 million in deferred tax assets.

Current liabilities

The balance of current liabilities at the end of the second quarter increased by ¥73.1 million from the end of the previous fiscal year to ¥1,471 million. This was mainly due to an increase of ¥36.4 million in accounts payable and an increase of ¥37.6 million in income taxes payable.

Fixed liabilities

The balance of fixed liabilities at the end of the second quarter decreased by ¥1.3 million from the end of the previous fiscal year to ¥3.5 million. This was mainly due to a decrease of ¥1.5 million in lease obligations.

Net assets

The balance of net assets at the end of the second quarter increased by ¥70.9 million from the end of the previous fiscal year to ¥4,541 million. This was mainly due to an increase of ¥40.7 million in retained earnings and an increase of ¥23.2 million in stock acquisition rights.

(ii) Cash flows

Cash and cash equivalents (hereinafter referred to as "funds") at the end of the second quarter increased by ¥198 million from the end of the previous fiscal year to ¥3,159 million.

Cash flow from operating activities

At the end of the second quarter, funds from operating activities decreased by ¥25.2 million from the same period of the previous year, resulting in a decrease of ¥80.3 million. This was mainly due to corporate taxes paid of ¥59.1 million and a decrease in consumption taxes payable of ¥35.2 million.

Cash flow from investing activities

Funds spent on investment activities at the end of the second quarter amounted to ¥1.6 million (¥108 million spent in the same period of the previous year). This was mainly due to expenditure from the purchase of intangible fixed assets of ¥1.5 million.

Cash flow from financing activities

Funds used in financing activities at the end of the second quarter amounted to ¥111 million (¥103 million used in the same period of the previous year). This is mainly due to dividend payments of ¥104 million.

(3) Explanation of future forecast information such as consolidated earnings forecasts

The consolidated earnings forecast for the fiscal year ending March 31, 2023 has been changed from the forecast announced in the Consolidated Financial Results for FY2022 on May 13, 2022. For more details, please refer to the Notice of Revisions to Earnings Forecasts announced today (November 10, 2022).

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Previous fiscal year (As of March 31, 2022)	Second quarter (As of September 30, 2022)
Assets		
Current assets		
Cash and cash equivalents	3,357,198	3,159,146
Accounts receivable and contract assets	2,027,272	2,284,094
Work in process	5,827	4,542
Supplies	467	388
Advances	8,456	14,649
Prepaid expenses	78,283	159,255
Other	49,635	34,145
Allowance for doubtful accounts	(2,763)	(2,665)
Total current assets	5,524,378	5,653,556
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	2,097	2,190
Furniture, fixtures, and equipment (net)	5,260	5,471
Leased assets (net)	17,187	10,092
Total tangible fixed assets	24,545	17,754
Intangible fixed assets		
Trademarks	-	1,500
Software	581	400
Total intangible fixed assets	581	1,900
Investments and other assets		
Investment securities	129,782	140,374
Lease and guarantee deposits	112,759	112,236
Long-term prepaid expenses	3,028	3,857
Deferred tax assets	67,219	75,364
Other	12,000	12,000
Total investments and other assets	324,789	343,833
Total fixed assets	349,916	363,488
Total assets	5,874,294	6,017,044

(Thousand yen)

	Previous fiscal year (As of March 31, 2022)	Second quarter (As of September 30, 2022)
Liabilities		
Current liabilities		
Accounts payable	1,033,545	1,070,020
Trade payables	98,741	68,795
Accrued expenses	51,177	74,936
Income taxes payable	101,752	139,444
Consumption taxes payable	54,407	30,311
Deposits received	34,906	54,565
Contract liabilities	9,591	17,223
Lease obligations	14,255	8,665
Other	171	7,721
Total current liabilities	1,398,549	1,471,685
Fixed liabilities		
Lease obligations	3,252	1,722
Other	1,631	1,805
Total fixed liabilities	4,884	3,528
Total liabilities	1,403,433	1,475,213
Net assets		
Shareholders' equity		
Capital	1,101,531	1,101,981
Capital surplus	1,051,474	1,051,924
Retained earnings	2,314,803	2,355,511
Treasury stock	(21,252)	(21,252)
Total shareholders' equity	4,446,556	4,488,164
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	7,348
Foreign currency translation adjustment	(2,426)	(3,660)
Total accumulated other comprehensive income	(2,426)	3,688
Stock acquisition rights	26,718	49,953
Non-controlling interests	12	23
Total net assets	4,470,860	4,541,831
Total liabilities and net assets	5,874,294	6,017,044

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated income statement

Second quarter consolidated cumulative period

(Thousand yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Sales	2,672,834	2,568,288
Cost of sales	1,216,129	1,233,293
Gross margin	1,456,704	1,334,995
Selling, general and administrative expenses	807,925	1,074,859
Operating income	648,779	260,136
Non-operating income		
Interest income	18	17
Subsidy income	1,840	-
Foreign exchange gains	2,167	2,966
Other	332	679
Total non-operating income	4,358	3,663
Non-operating expenses		
Interest expenses	70	43
Stock issuance costs	48	-
Commitment fees	896	279
Total non-operating expenses	1,016	323
Ordinary income	652,121	263,476
Profit before income tax	652,121	263,476
Income taxes – current	143,648	127,492
Income taxes – deferred	89,388	(9,983)
Total income taxes	233,036	117,508
Net income	419,085	145,967
Profit attributable to non-controlling interests	4	12
Profit attributable to owners of parent	419,080	145,955

Quarterly consolidated statement of comprehensive income
 Second quarter consolidated cumulative period

(Thousand yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net income	419,085	145,967
Other comprehensive income		
Valuation difference on available-for-sale securities	-	7,348
Foreign currency translation adjustment	(1,662)	(1,233)
Total other comprehensive income	(1,662)	6,115
Comprehensive income	417,422	152,083
(Breakdown)		
Comprehensive income attributable to owners of parent	417,419	152,071
Comprehensive income attributable to non-controlling interests	3	11

(3) Quarterly consolidated statement of cash flows

(Thousand yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flow from operating activities		
Profit before income tax	652,121	263,476
Depreciation	57,477	8,363
Stock-based compensation expenses	2,459	23,235
Increase (decrease) in allowance for doubtful accounts	(22)	(97)
Interest and dividend income	(18)	(17)
Interest expenses	70	43
Subsidy income	(1,840)	-
Stock issuance costs	48	-
Decrease (increase) in trade receivables and contract assets	(495,988)	(255,772)
Decrease (increase) in inventories	1,113,203	1,364
Increase (decrease) in accounts payable	58,389	35,526
Increase (decrease) in contract liabilities	(1,096,158)	6,956
Increase (decrease) in unpaid or accrued consumption taxes	(110,396)	(35,218)
Other	75,936	(68,949)
Subtotal	255,283	(21,089)
Interest and dividends received	18	17
Interest paid	(70)	(43)
Corporate tax reimbursed (paid)	(312,162)	(59,191)
Other	1,840	-
Net cash provided by operating activities	(55,091)	(80,307)
Cash flow from investing activities		
Expenditure from purchase of property, plant and equipment	(12,221)	(1,433)
Expenditure from purchase of intangible assets	-	(1,500)
Expenditure from payment of lease and guarantee deposits	(56,852)	(221)
Proceeds from collection of lease and guarantee deposits	336	1,220
Expenditure from fulfillment of asset retirement obligations	(39,920)	-
Other	-	299
Net cash provided by investing activities	(108,657)	(1,634)
Cash flow from financing activities		
Expenditure from repayment of lease obligations	(3,352)	(7,121)
Proceeds from issuance of shares	4,806	900
Expenditure from purchase of treasury shares	(53)	-
Dividends paid	(104,518)	(104,921)
Net cash provided by financing activities	(103,118)	(111,142)
Effect of exchange rate change on cash and cash equivalents	(2,591)	(4,966)
Increase (decrease) in cash and cash equivalents	(269,459)	(198,051)
Cash and cash equivalents at beginning of period	3,149,695	3,357,198
Cash and cash equivalents at end of period	2,880,235	3,159,146

(4) Notes to quarterly consolidated financial statements

Changes in the scope of consolidation or application of the equity method

The newly established SEED TECH PHILIPPINES INC. was included in the scope of consolidation during the second quarter of the current consolidated accounting period.

Going concern assumption

Not applicable.

Significant changes in shareholders' equity

Not applicable.

Segment information

Changes to reportable segments

Following revisions made to business segments from the first quarter of the fiscal year ending March 31, 2023, all related business that produces applications and videos which make use of augmented reality have been moved from the x-Tech business to the Game business. Accordingly, the reportable segment classification for the previous second quarter consolidated cumulative period has been similarly changed.

Six months ended September 30, 2021

1. Information related to sales and profit/loss by reportable segment

(Thousand yen)

	Reportable segment				Total	Adjustment*1	Quarterly consolidated income statement*2
	IT Freelance Matching Business	Game Business	Seed Tech Business	x-Tech Business			
Sales							
Sales to external customers	860,985	1,654,586	71,588	85,673	2,672,834	-	2,672,834
Internal sales or transfers between segments	-	-	-	-	-	-	-
Total	860,985	1,654,586	71,588	85,673	2,672,834	-	2,672,834
Segment profit	475,385	368,460	8,041	13,102	864,989	(216,210)	648,779

Notes: 1. Adjustments for segment profit of -¥216,210 thousand include -¥232,110 thousand in Group-wide expenses not allocated to each reportable segment and ¥15,900 thousand for the elimination of transactions between segments.

2. The total of segment profit/loss and adjustments are reconciled with operating income in the quarterly consolidated statement of income.

Six months ended September 30, 2022

1. Information related to sales and profit/loss by reportable segment

(Thousand yen)

	Reportable segment				Total	Adjustment*1	Quarterly consolidated income statement*2
	IT Freelance Matching Business	Game Business	Seed Tech Business	x-Tech Business			
Sales							
Sales to external customers	1,048,938	1,348,983	67,389	102,977	2,568,288	-	2,568,288
Internal sales or transfers between segments	387	-	6,885	-	7,272	(7,272)	-
Total	1,049,325	1,348,983	74,274	102,977	2,575,560	(7,272)	2,568,288
Segment profit	539,636	(29,136)	(33,622)	27,081	503,959	(243,823)	260,136

Notes: 1. Adjustments for segment profit of -¥243,823 thousand include -¥262,408 thousand in Group-wide expenses not allocated to each reportable segment and ¥18,585 thousand for the elimination of transactions between segments.

2. The total of segment profit/loss and adjustments are reconciled with operating income in the quarterly consolidated statement of income.

Significant subsequent events

Company merger through business acquisition

It was resolved at the Board of Directors meeting held on November 10, 2022 to acquire a 70% stake in the Australian-based IT human resources service business, Launch Group Holdings Pty Ltd (hereinafter referred to as “Launch”), and to make Launch and its subsidiary Launch Recruitment Pty Ltd a consolidated subsidiary of the Company.

1. Overview of company merger

(i) Name of acquired company and details of its business

Company name: Launch Group Holdings Pty Ltd (holding company)

Business description: Staffing business specializing in IT workers

MSP business (provides a comprehensive management system for a series of processes from HR procurement to management for its clients)

(ii) Main reasons for merger

With our grand vision to make the biggest impression in the 21st century, we are developing an IT freelance recruitment business, and a next-generation engineer education business in collaboration with our subsidiary in the Philippines, to become a technical resource sharing platform in the field of IT freelancers.

And in our G100 medium-term management plan (FY2022–2025) formulated in the fiscal year ended March 2022, we have declared that mergers and acquisitions aimed at creating business synergies will be a key strategy for the Group to achieve medium- to long-term growth.

Founded in 2006, Launch operates an IT staffing business and MSP business (a comprehensive management system for a series of processes from HR procurement to management for its clients) in Australia. The company continues to grow by having a continuous track record and greater dealings with major clients.

Under these circumstances, the acquisition of shares will enable the GEECHS Group to carry out cross-border matching and IT freelancer development business within the APAC (Asia Pacific) region in pursuit of accelerated business expansion. This merger and acquisition is in line with the Group’s strategy of expanding and evolving as a technical resource sharing platform dedicated to IT freelancers. As such, GEECHS has decided to acquire shares in Launch as it will help to enhance the Group’s corporate value.

(iii) Date of merger

Early January 2023 (planned share acquisition date)

January 1, 2023 (scheduled date of deemed acquisition)

(iv) Legal form of merger

Cash consideration payment for shares

(v) Name of company after merger

No change to company name.

(vi) Ratio of voting rights acquired

70.0%

(vii) Main grounds for deciding on the company to be acquired

This is to acquire shares for the Company in consideration of cash.

2. Acquisition cost of the acquired company and breakdown by type of consideration

Common stock (approximately) 18,887 thousand AUD (¥1,794 million)

* Japanese yen converted at the rate of 95.00 yen per 1 Australian dollar.

3. Details and amount of major acquisition-related expenses

Advisory expenses, etc. (approximately) ¥118 million

4. Goodwill, cause of goodwill, amortization method and period

TBC

5. Assets and liabilities assumed on date of merger and main breakdown

TBC