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

February 14, 2023

Company name: GEECHS Inc. Listing: Tokyo Stock Exchange
 Securities code: 7060 URL: <https://geechs.com>
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 Scheduled date to file quarterly report: February 14, 2023 Scheduled date to commence payment of dividends: —
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: None

(Amounts are rounded down to the nearest million yen)

1. Consolidated financial results for the third quarter of the fiscal year ending March 31, 2023 (from April 1 to December 31, 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	%
Q3 of FY3/23	11,802	11.3	386	(55.1)	360	(58.2)	159	(70.1)
Q3 of FY3/22	10,601	448.2	861	121.9	862	135.5	533	141.5

Note: Comprehensive income Q3 of FY3/23 166 million yen (-68.7%) Q3 of FY3/22 533 million yen (+140.2%)

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
Q3 of FY3/23	15.17	15.03
Q3 of FY3/22	50.91	50.10

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
Q3 of FY3/23	6,186	4,574	72.9
FY3/22	5,874	4,470	75.7

Reference: Shareholders' equity Q3 of FY3/23 4,511 million yen FY3/22 4,444 million 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	15,900	10.9	450	(60.3)	450	(60.4)	260	(63.1)	24.66

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: None Excluded: None

(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 shares issued (common stock)

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

(ii) Number of treasury shares at end of period

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

FY3/23 Q3	10,582,880	FY3/22	10,564,840
FY3/23 Q3	40,151	FY3/22	40,151
FY3/23 Q3	10,527,106	FY3/22 Q3	10,489,195

* 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 third 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 nine months from April 1 to December 31, 2022, the situation remains somewhat uncertain due to downside risks to the economy, such as the rise in prices associated with the 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.

Moreover, as stated in the Notice Regarding the Completion of the Acquisition of Shares of Launch Group Holdings Pty Ltd, an Australian IT human resources service, disclosed on January 16, 2023, Launch Group Holdings Pty and its subsidiary Launch Recruitment Pty Ltd have become consolidated subsidiaries of GEECHS. With this acquisition the Group has built a business structure for a more global business that plays a broader role as a technical resource sharing platform.

As a result, the Group recorded end of third quarter consolidated sales of ¥11,802 million (up 11.3% year-on-year), operating income of ¥386 million (down 55.1% year-on-year), ordinary income of ¥360 million (down 58.2% year-on-year), and profit attributable to owners of parent of ¥159 million (down 70.1% 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. As a result of aggressive investment in advertising, which expanded to include cabs, the Tokyo Metro and other transport-related advertising, inquiries from major companies outside the IT sector increased. Cross-matching between the Tokyo metropolitan area and regional areas is also on the rise with the number of new companies doing business with us steadily growing.

As a result, sales in this business segment at the end of the third quarter were ¥9,369 million (up 18.4% year-on-year) with a segment income of ¥796 million (up 11.5% year-on-year).

Game Business

In the Game Business, the Group operates seven 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 three new titles. During the third quarter we delivered two new titles and received an order for one new title. We are focusing on controlling our resources appropriately as the game development situation unfolds.

As a result, sales in this business segment at the end of the third quarter were ¥2,168 million (down 11.0% year-on-year) with a segment income of ¥60.5 million (down 86.8% year-on-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, as well as an IT study abroad business and an offshore outsourcing development business on the island of Cebu in the Philippines.

As a result, sales in this business segment at the end of the third quarter were ¥122 million (up 28.0% year-on-year) with a segment loss of ¥31.4 million (segment loss of ¥7.8 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 third quarter were ¥158 million (up 0.8% year-on-year) with a segment profit of ¥39.4 million (up 59.0% year-on-year).

(2) Explanation of financial position

Current assets

The balance of current assets at the end of the third quarter increased by ¥324 million from the end of the previous fiscal year to ¥5,848 million. This was mainly due to an increase of ¥245 million in cash and deposits and an increase of ¥76.7 million in accounts receivable and contract assets.

Fixed assets

The balance of fixed assets at the end of the third quarter decreased by ¥12.2 million from the end of the previous fiscal year to ¥337 million. This was mainly due to a decrease of ¥17 million in deferred tax assets.

Current liabilities

The balance of current liabilities at the end of the third quarter increased by ¥210 million from the end of the previous fiscal year to ¥1,609 million. This was mainly due to an increase of ¥68.6 million in accounts payable and an increase of ¥76.8 million in trade payables.

Fixed liabilities

The balance of fixed liabilities at the end of the third quarter decreased by ¥1.7 million from the end of the previous fiscal year to ¥3.1 million. This was mainly due to a decrease of ¥1.8 million in lease obligations.

Net assets

The balance of net assets at the end of the third quarter increased by ¥103 million from the end of the previous fiscal year to ¥4,574 million. This was mainly due to an increase of ¥54.5 million in retained earnings and an increase of ¥35.2 million in stock acquisition rights.

(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 (February 14, 2023).

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Previous fiscal year (As of March 31, 2022)	Third quarter (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	3,357,198	3,602,945
Accounts receivable and contract assets	2,027,272	2,104,049
Work in process	5,827	2,310
Supplies	467	355
Advances	8,456	2,972
Prepaid expenses	78,283	114,250
Other	49,635	24,652
Allowance for doubtful accounts	(2,763)	(2,780)
Total current assets	5,524,378	5,848,756
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	2,097	3,977
Furniture, fixtures, and equipment (net)	5,260	6,755
Leased assets (net)	17,187	6,544
Total tangible fixed assets	24,545	17,278
Intangible fixed assets		
Trademarks	-	1,487
Software	581	361
Total intangible fixed assets	581	1,849
Investments and other assets		
Investment securities	129,782	140,374
Lease and guarantee deposits	112,759	112,088
Long-term prepaid expenses	3,028	3,949
Deferred tax assets	67,219	50,120
Other	12,000	12,000
Total investments and other assets	324,789	318,532
Total fixed assets	349,916	337,660
Total assets	5,874,294	6,186,416

(Thousand yen)

	Previous fiscal year (As of March 31, 2022)	Third quarter (As of December 31, 2022)
Liabilities		
Current liabilities		
Accounts payable	1,033,545	1,102,205
Trade payables	98,741	175,572
Accrued expenses	51,177	96,223
Income taxes payable	101,752	57,343
Consumption taxes payable	54,407	70,907
Deposits received	34,906	50,775
Contract liabilities	9,591	21,203
Lease obligations	14,255	5,454
Exchange contracts	-	29,040
Other	171	496
Total current liabilities	1,398,549	1,609,224
Fixed liabilities		
Lease obligations	3,252	1,367
Other	1,631	1,791
Total fixed liabilities	4,884	3,159
Total liabilities	1,403,433	1,612,383
Net assets		
Shareholders' equity		
Capital	1,101,531	1,104,797
Capital surplus	1,051,474	1,054,740
Retained earnings	2,314,803	2,369,303
Treasury stock	(21,252)	(21,252)
Total shareholders' equity	4,446,556	4,507,589
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	7,348
Foreign currency translation adjustment	(2,426)	(2,948)
Total accumulated other comprehensive income	(2,426)	4,400
Stock acquisition rights	26,718	62,011
Non-controlling interests	12	31
Total net assets	4,470,860	4,574,033
Total liabilities and net assets	5,874,294	6,186,416

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated income statement

Third quarter consolidated cumulative period

(Thousand yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Sales	10,601,106	11,802,927
Cost of sales	8,514,071	9,652,212
Gross margin	2,087,035	2,150,714
Selling, general and administrative expenses	1,225,632	1,764,177
Operating Income	861,403	386,537
Non-operating income		
Interest income	19	17
Outsourcing revenue	350	450
Subsidy income	1,840	-
Foreign exchange gains	34	-
Other	152	379
Total non-operating income	2,396	846
Non-operating expenses		
Interest expenses	100	60
Foreign exchange losses	-	26,777
Stock issuance costs	452	-
Commitment fees	1,199	279
Total non-operating expenses	1,752	27,117
Ordinary Income	862,047	360,266
Profit before income tax	862,047	360,266
Income taxes – current	130,324	185,355
Income taxes – deferred	197,756	15,143
Total income taxes	328,080	200,499
Net income	533,966	159,766
Profit attributable to non-controlling interests	3	19
Profit attributable to owners of parent	533,962	159,747

Quarterly consolidated statement of comprehensive income

Third quarter consolidated cumulative period

(Thousand yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net income	533,966	159,766
Other comprehensive income		
Valuation difference on available-for-sale securities	-	7,348
Foreign currency translation adjustment	(873)	(521)
Total other comprehensive income	(873)	6,827
Comprehensive income	533,092	166,593
(Breakdown)		
Comprehensive income attributable to owners of parent	533,090	166,574
Comprehensive income attributable to non-controlling interests	2	19

(3) 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 third quarter consolidated cumulative period has been similarly changed.

Nine months ended December 31, 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	7,909,994	2,438,044	95,799	157,268	10,601,106	-	10,601,106
Internal sales or transfers between segments	-	-	-	-	-	-	-
Total	7,909,994	2,438,044	95,799	157,268	10,601,106	-	10,601,106
Segment profit (loss)	714,571	458,856	(7,869)	24,782	1,190,340	(328,937)	861,403

Notes: 1. Adjustments for segment profit (loss) of ¥(328,937) thousand include -¥352,637 thousand in Group-wide expenses not allocated to each reportable segment and ¥23,700 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.

Nine months ended December 31, 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	9,363,164	2,168,662	112,643	158,457	11,802,927	-	11,802,927
Internal sales or transfers between segments	6,063	-	10,022	-	16,085	(16,085)	-
Total	9,369,227	2,168,662	122,665	158,457	11,819,012	(16,085)	11,802,927
Segment profit (loss)	796,962	60,588	(31,495)	39,410	865,465	(478,928)	386,537

Notes: 1. Adjustments for segment profit (loss) of ¥(478,928) thousand include -¥506,828 thousand in Group-wide expenses not allocated to each reportable segment and ¥27,900 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.

Significant subsequent events

1. Acquisition of shares of Launch Group Holdings Pty Ltd

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. A share transfer agreement was concluded on the same day. Pursuant to this agreement, the shares were acquired on January 16, 2023.

(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

January 16, 2023 (deemed acquisition date: January 1, 2023)

(iv) Legal form of merger

Cash consideration payment for shares

(v) Name of company after merger

No change to company name.

(vi) Ratio of acquired voting rights

70.0%

(vii) Main grounds for deciding on acquired company

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 at A\$18,887,000 (¥1,721 million)

* Japanese yen converted at the rate agreed with bank of 91.16 yen per 1 Australian dollar.

(3) Details and amount of major acquisition-related expenses

Advisory expenses, etc. of ¥120 million

(4) Goodwill, cause of goodwill, amortization method and period

TBC

(5) Assets and liabilities assumed on date of merger and main breakdown

TBC

(6) Method of financing payment

The funds for this share acquisition were provided through bank loans (see “2. Large borrowings” below) and our own funds.

2. Large borrowings

At a meeting of the Board of Directors held on November 17, 2022, the Company resolved to borrow funds to finance the acquisition of shares of Launch Group Holdings Pty Ltd. The loan was executed on January 12, 2023.

(i) Lender	Sumitomo Mitsui Banking Corporation
(ii) Loan amount	¥1,720 million
(iii) Date of borrowing	January 12, 2023
(iv) Term	10 years (repayment)
(v) Interest rate	0.6% above base rate
(vi) Collateral	Unsecured / non-guaranteed
(vii) Financial covenants	None

3. Acquisition of treasury shares

At a meeting of the Board of Directors held on February 14, 2023, the Group resolved matters pertaining to the acquisition of treasury shares based on the application of the provisions of Article 156 of Japan’s Companies Act pursuant to the rewording of Article 165-3.

(1) Reason for acquisition of treasury shares

To respond flexibly to changes in the business environment, as well as to return profits to shareholders through capital policy

(2) Details of matters relating to the acquisition

(i) Type of shares acquired

Common stock

(ii) Total number of acquired shares

400,000 shares (maximum) (3.8% of total shares issued, excluding treasury shares)

(iii) Total acquisition cost of shares

¥300 million (maximum)

(iv) Acquisition period

February 15 to April 28, 2023

(v) Acquisition method

Market purchase on the Tokyo Stock Exchange