



GEECHS | 7060

TSE Standard

Initiation

Indispensable company for solving Japan's shortage of IT human resources

Summary

- **Company Overview:** Japan is expected to face a shortfall of up 790,000 IT workers in 2030. GEECHS views this shortage of IT human resources as a social issue that the Group should solve. The Company's current core business is its IT freelance matching business (Japan) that matches companies that want to outsource work to outside workers with IT freelancers who want to do that work, and the Company receives a matching fee as the IT freelancer sharing agent. The business boasts three strengths: (1) knowhow to quickly make the best match, (2) high unit price of orders, and (3) ability to attract and retain highly skilled IT freelancers with generous support.
- GEECHS has used the cashflow from its IT freelance matching business (Japan) to diversify both business risk and its effective use of human capital. The company established an IT study abroad business and commissioned offshore development services based in the Philippines, and acquired a human resources service company in Australia, aiming to expand its cross-border IT freelance matching business and generate synergies. It appears that having completed its upfront investment phase, the Company will start to generate profit.
- **Earnings Trend:** GEECHS posted its largest net loss in FY2024/3 for several reasons, such as weaker-than-expected performance of its Australian business and Game business. It is SIR's opinion that FY2024/3 was a difficult year for the Company in which it needed to fully resolve various problems in order to generate future growth—in other words, resolutely select and concentrate on particularly businesses in anticipation of unforeseen conditions. This included making several tough managerial judgements, such as revising downward earnings and dividend forecasts and withdrawing its medium-term management plan during the fiscal year and recording impairment losses in Australia business and selling off a game business at the end of the fiscal year. For FY2025/3, the Company expects that it will see net sales growth of 11%, EBITDA growth of 85%, and a turnaround in net profit, due to the steady expansion of its IT freelance matching business (Japan) and elimination of unprofitable businesses. 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.
- **Medium-term growth strategy:** GEECHS tries to evolve into a comprehensive IT solution provider with a growth strategy to generate greater orders for its IT freelancers by bringing IT consulting, PMO, and development functions, which are farther upstream than its current business domains, in-house through M&As and the providing various IT solutions to customer companies.

¥mn, %	Sales	YoY	EBITDA	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS(¥)	DPS(¥)
2022/3 C	14,340	N.M.	-	N.M.	1,133	53.5	1,135	59.1	705	54.1	67.18	10.00
2023/3 C	15,997	11.6	651	N.M.	589	-48.0	567	-50.0	244	-65.4	23.20	10.00
2024/3 C	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

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 (5/22)	466
YH (24/4/10)	567
YL (24/3/11)	440
10YH (19/4/2)	2,715
10YL (24/3/1)	440
Shrs out. (1K shrs)	10,326
Mkt cap (¥ mn)	4,812
Equity ratio (23/9)	39.2%
FY2024/3 P/B (act)	1.71x
FY2025/3 P/E (CE)	14.3x
FY2024/3 ROE (act)	-41.5%
FY2025/3 DY (CE)	2.15%

Daily Stock Price Chart



Source: Trading view

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- **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. It is rare among IT-related stock to have a calculable dividend yield, with its FY2025/3 forward PER of 14x and EV/EBITDA of less than 4x. Therefore, from the perspective of single-year fundamental valuation, it is hard to describe it as anything other than an "unprecedented value." SIR thinks that if the Company's mid-term management plan, which is likely to be released during the current fiscal year, clearly indicates the impact that a "shifting to upstream domains" would have on earnings, this could serve as an expected catalyst for the delayed recovery in the Company's share price.

Company Overview

* The Company defines a “freelancer” as “a socially independent sole-proprietor that earns income by providing their specialized skills, not being employed by a particular company or organization.”

Therefore, IT workers who do side jobs while working as a regular employee of a company are not within the scope of the Company’s services.

* “Survey on the Latest Trends and Future Estimates of IT Human Resources” released by Ministry of Economy, Trade and Industry in June 2016

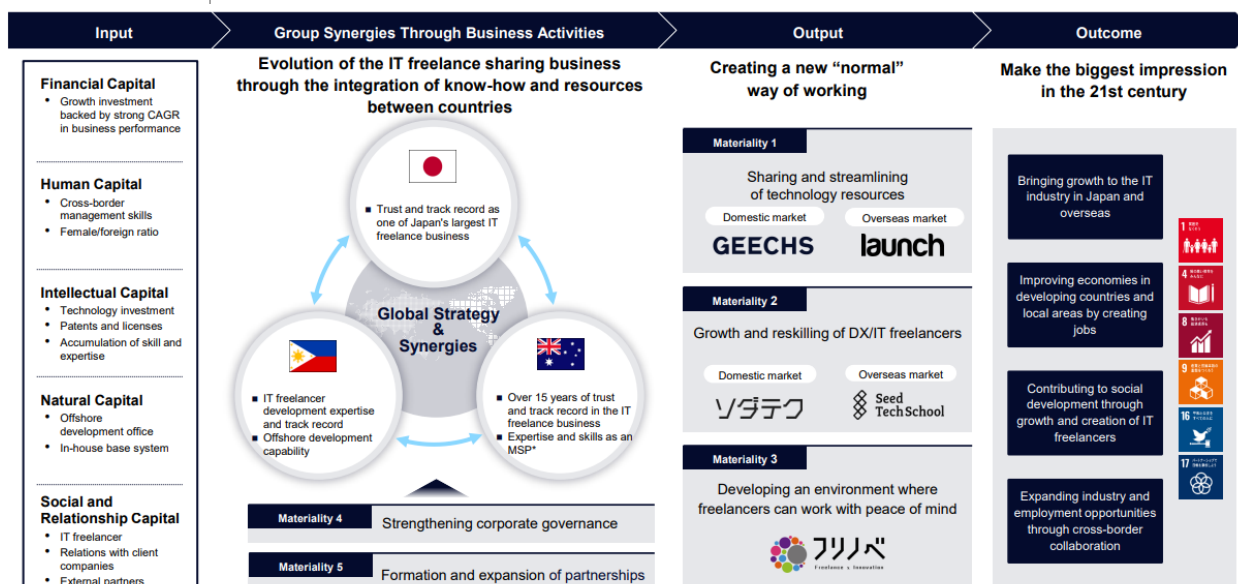
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■ Indispensable company for solving Japan’s shortage of IT human resources

GEECHS Inc.’s current core business is its **IT freelance matching business (Japan)** (1), which matches companies that want to outsource work to outside workers with IT freelancers* who want to do that work as the IT freelancer sharing agent. The Company handles commissioned coding projects, which require the largest number of man-hours for system development projects, from customer companies and subcontracts the work to IT freelancers through its project search website **geechs job** (<https://geechs-job.com/>). After taking a certain percentage (take rate) of the outsourcing fee paid by customer companies as an agent fee, the Company pays the remaining amount to IT freelancers as work compensation. This agent fee is the actual top line of the Company's profit and loss for the period. In January 2023, the Company acquired an Australian human resources service provider and used that company to launch its **IT freelance matching business (Overseas)** (2), which is similar to the one in Japan. The Company also operates several other business. The **Seed Tech Business** (3) is responsible for providing the SaaS-type DX/IT human resource development service Sodatech and training DX/IT human resources through the IT study abroad Seed Tech School on Cebu Island (Philippines), and offshore development. The x-Tech business, which is grouped in “**other businesses**” (4), provides digital marketing services focused on the sports domain. In March 2024, as the Company sold G2 Studios, which operated a game business, the Company will have the above four business segments from FY2025/3.

Touting a grand vision of “**Make the biggest impression in the 21st century**”, the Group aims to provide continual success to customers through the services it provides and to use that success to create a strong impression. The Company views the shortage of IT human resources as a social issue that the Group should solve. According to the Ministry of Economy, Trade, and Industry’s IT demand gap forecasts,* Japan is expected to face its largest shortage of IT human resources, 790,000 workers, in 2030, and developing and securing IT human resources is an issue for not only society in general but also corporate managers who want to provide desirable services and products.

Recognizing this, the following mission is touted : “**GEECHS supports the work styles of IT freelancers, sharing their skills and experiences with companies that face a shortage of IT human resources. GEECHS also continues to provide globally-oriented businesses by utilizing foreign IT freelancers overseas, develops IT freelancers from scratch regardless of whether they work for a corporation or for themselves, creating IT human resources from within organizations through reskilling, and provides an environment that will increase the number of people who wish to build a career as an IT freelancer in Japan. In such way, GEECHS contributes greatly to the future of Japanese society.**”



Source: Excerpt from the Company IR material.

■ History: Developed through the determination of the well experienced CEO

In the emerging Internet industry in Japan, workers began changing firms from the early 2000s as few companies offered lifetime employment. The Company's Representative Director and President Naruhito Sonehara quickly picked up on the trend that it is better for skilled IT engineers to accept work individually as freelancers, and in August 2007, he established the company Vein Carry Japan Inc., which operated an IT human resources business. In April 2009, he acquired all the shares of the company through an MBO and then changed its name to the current name GEECHS Inc. in October 2013. The Company debuted on the Tokyo Stock Exchange (TSE)'s MOTHERS Market in March 2019, and then moved to the TSE's first section in April 2020. It subsequently moved from the Prime Market to the Standard Market in October 2023.

The Company diversified its business to diversity business risk and make effective use of human assets. In February 2012, the Company merged with the game development company BRAHMaS Japan Inc., which Mr. Sonehara owned on his own, and launched a game business (G2 Studios Inc). With the founding of the IT human resources development company Seed Tech, Inc., in January 2021, the Company launched an IT study abroad business on Cebu Island (Philippines), and a commissioned offshore development business based in the same area in November of the following year. The Company then launched its IT freelance matching business (Overseas) by acquiring the Australian human resources service company Launch Group Holding Pty Ltd. for about ¥1.7 bn and transforming the company into a wholly-owned subsidiary in January 2023. However, the Company sold off all its holdings in G2 Studios for ¥844 mn in March 2023 and withdrew from the game business, which remained unprofitable, and the G2 was removed from the scope of consolidation starting in FY2025/3. The almost 250 employees of G2 Studios were also transferred, reducing the number of GEECH's employees from 444 at the end of March 2023 to 268 as of the end of March 2024.

Segment Information

Segment	Business	(¥mn)	2021/3	2022/3	2023/3	2024/3	2025/3 CE
IT Freelance Matching Business (Japan)	IT freelancer and customer company matching business in Japan	Sales	1,444*	10,767	12,763	14,089	15,800
		OP	823	997	1,060	1,144	1,280
		OPM		9.3%	8.3%	8.1%	8.1%
IT Freelance Matching Business (Overseas)	IT freelancer and customer company matching business in Australia	Sales	-	-	-	7,162	10,000
		OP	-	-	-	-135	0
		OPM				-1.9%	0.0%
Seed Tech	human resources development tool sales, IT study abroad program, and offshore development	Sales	104	116	176	282	400
		OP	-16	-27	-32	-23	50
		OPM	-15.1%	-23.1%	-18.0%	-8.2%	12.5%
G2 Studios (Former Game Business until 2023/3)	Commissioned game development and game title operation business	Sales	1,617	3,154	2,896	2,111	-
		OP	270	584	121	-357	-
		OPM	16.7%	18.5%	4.2%	-16.9%	
Other (Former x-Tech Business until 2023/3)	Marketing video production for golf club manufacturers, etc.	Sales	266	304	183	128	100
		OP	-12	15	40	4	0
		OPM	-4.6%	4.9%	21.6%	3.4%	0.0%
Total		Sales	3,428	14,340	15,998	23,740	26,300
		OP	738	1,134	589	91	550
		OPM		7.9%	3.7%	0.4%	2.1%

Source: Compiled by SIR from the Company IR material.

Note: Applied Accounting Standard for Revenue Recognition and other standards starting in FY2023/3. Figures for FY22/3 have been revised to reflect the retroactive application of these standards. Figures for FY21/3 have not been revised to reflect the retroactive application of these standards.

GEECHS's Three Strength

* Calculated using IT freelancer's average monthly compensation (including taxes) from projects obtained through geechs job and assuming the freelancer is engaged for 12 months.

Select by skills

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<input type="checkbox"/> Go	<input type="checkbox"/> Java
<input type="checkbox"/> Python	<input type="checkbox"/> Scala
<input type="checkbox"/> PHP	<input type="checkbox"/> Ruby
<input type="checkbox"/> Perl	<input type="checkbox"/> Unity
<input type="checkbox"/> Cocos2d-x	<input type="checkbox"/> C#.NET
<input type="checkbox"/> VB.NET	<input type="checkbox"/> VB/VBA
<input type="checkbox"/> C/C++	<input type="checkbox"/> COBOL
<input type="checkbox"/> HTML5/CSS3	<input type="checkbox"/> JavaScript
<input type="checkbox"/> Photoshop/Illustrator	<input type="checkbox"/> SQL
<input type="checkbox"/> DB(インフラ)	<input type="checkbox"/> NW(インフラ)
<input type="checkbox"/> サーバ(インフラ)	<input type="checkbox"/> AWS
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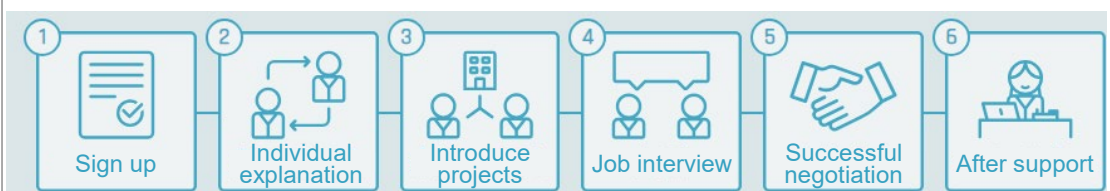
Source: the Company geechs job

■ Strength 1: Knowhow to conduct quick and relevant matching

Through its core IT freelance matching business (Japan), GEECHS helps match companies who want to outsource work to independent IT workers with IT freelancers looking for work via its project information search website geechs job. IT freelancers can register for free with geechs job at first. As of May 2024, there were more than 5,600 available projects through geechs job. Furthermore, the website states that about 3,550 companies have worked with the Company (as of September 2023), and that the average annual income* for freelancers working on projects through geechs jobs was more than ¥8.3 mn. When searching for projects, freelancers can narrow down results selecting conditions, such as the skills listed to the left, requirements, location, position, and key words.

(1) After a freelancer signs up, one of the Company's dedicated career representatives contacts the application. (2) Following a 90-minute individual explanation of the Company's services, the applicant is asked detailed questions about their previous work while their resume and skills are checked. The applicant is also asked about such points as the work they want to do and desired unit price of order and provided advice on how to write a resume and other points. Although this process is very time-and-effort-consuming, it can be argued that it is the most important process for creating future asset value for the Company by establishing win-win trust between the representative and applicant. (3) Requested projects from customer companies and IT freelancer information are recorded in the in-house system ROOT, and then compiled into a database. After system-based matching, the representative informs registered freelancers of projects that meet their desires and projects that could further develop their careers using their own judgment and then provides advice regarding key points when answering questions that may come up in the job interview with each customer so that the applicant can properly communicate their work history. (4) On the day of the job interview, the representative accompanies the applicant and helps communicate their work history and skills and draw out the project details from the customer. (5) If the applicant wins the order following post-interview contract negotiations, the representative handles the individual contract for each project. This is when the project is official accepted. (6) On the first day that the freelancer joins the project, the dedicated representative accompanies the person to the site, and after work begins, a dedicated follow-up staff member will regularly monitor and support the situation.

The Company's website boasts that after receiving a request from a customer company, it takes as little as one business day to match an IT freelancer who can immediately make contributions.



Source: the Company geechs job

■ Strength 2: High unit price of orders attracts highly skilled IT freelancers

GEECHS's main target customers are growing IT companies with a focus on internet businesses (Ad tech, med tech, fin tech, real estate tech, HR tech, EC, ed tech, games, health tech, and various types of SaaS), and IT companies (various business systems, in-house operation systems).

The Company says that its customers are located not only in the Greater Tokyo , but also include many IT ventures and emerging companies in regional urban areas due to the spread of remote work.

GEECHS pays IT freelancers compensation that is equal to or greater than that of full-time employees because it handles many medium-to-high-priced projects that require a medium to high skill level (web-related projects, projects that require AI language programming, etc.). The average unit price of orders in FY2024/3 was ¥804,000 per man-month, which translates into an average annual income for freelancers working on projects obtained through the Company of more than ¥8.30 mn.

With mid- to high-priced projects as an incentive, the average engagement duration for the company's IT freelancers was 17.8 months (for FY2024/3), which is relatively long. The contract that the Company concludes with IT freelancers is a quasi-mandate contract. With a quasi-mandate contract, work hours are managed by the customer company. Customer companies satisfied with the work of the freelancer place additional orders, and the more an IT freelancer is satisfied with their treatment by the customer company, the longer they can work. This also leads to creating asset value for the Company.

GEECHS's business model differs from a crowd-sourcing model. First of all, the Company's process for matching customer companies with IT freelancers is "closed" in the sense it does not use an "open matching platform" where customer companies and IT freelancers directly place and receive orders between themselves, which a crowd-sourcing model is based on. It also differs in terms of differentiating between full-time and part-time registered freelancers, attributes of customer companies and registered freelancers, unit price of orders, and size of compensation. The crowd-sourcing model that competitors in the same industry use is based on matching for relatively low-skill, low-priced projects, such as diverse single orders for design creation, that freelancers can undertake in their free time, whether they are working as a main job or a side job. The most common type of contract for crowd-sourcing model is the contract for work, in which compensation is paid when the work is completed and requires strong perseverance. The Company, however, uses a quasi-mandate contract, in which compensation proportional to performance can be requested even if results fall short of expectations as long as operations are properly conducted. Therefore, IT freelancers who want a stable income avoid crowd-sourcing in which there is a single contract period and value the connection with the Company, which provides long-term continuing contracts.

Differences from Similar Businesses

Developing a platform specifically for mid- to high-spec, professional IT freelancers

	GEECHS	Crowdsourcing-model	IT Engineers Dispatch-model
Registrant	IT freelancers (main job)	Freelancers (side/main job), and others	Dispatched workers
Main clients	Growth companies in IT field	Medium-sized and large companies	Major system integration companies
Type of contract	Quasi contract	Service contract	Worker dispatch contract
Pay basis	Per hours worked/month	Per deliverables	Per hour
Contract term	From 1, 3 or 6 months and longer	Based on project	From one month
Main type of work (projects)	Internet service development	Wide variety of low-cost projects, such as design production	<ul style="list-style-type: none"> Managing legacy systems Developing work systems
Employment relationship	None	None	Employment relationship with temping agency

Source: the Company IR material

■ Strength 3: Retains IT freelances with generous support

Another strength of GEECHS is that each IT freelancer has a support team that generally consists of three people. Because freelance engineers do not belong to any organization, they want someone to support them. For example, many freelancers do not know their fair market value if they directly obtain work as an individual. The Company also functions as a project mentor and provides appropriate career development advice based on perspectives for market trends through its career advisers. This creates a system to objectively communicate freelancer's market value, which is known within the freelancer community.

GEECHS also provides IT freelancers with the benefit program Frinove to reduce the uncertainty of working as an IT freelancer. The program includes 54 services, such as seminars on how to file tax returns, discounts on accounting software, support via various online learning services, discounts for medical checkups and health screenings, special offers on English study abroad programs, special benefits for marriage and other life events, discounts on mortgage administration fees, affiliated credit cards and other benefits, and benefits to support learning of AI technology.

By improving engagement with IT freelancers in this way, GEECHS retains IT freelancers through strong continuing partnerships, creating a win-win-win relationship of trust between customer companies, the Company, and IT freelancers, an asset that differentiates the Company. This makes it possible for the Company to not only stabilize but also expand its business.

On the other hand, it will probably be necessary for the Company to increase its support staff proportionally to the increase in the number of IT freelancers. This is likely a necessary labor cost as it expands its scope of business, and unless the Company can skillfully control costs, its profitability may decline. How the company balances this will likely be important.

■ Attributes of IT freelancers registered with the Company

GEECHS has created a database on its in-house system ROOT that scores such factors as talent, skills, and experience as an IT freelancer, and age. The Company stresses the ability of its ready-to-contribute IT engineers. For example, IT freelancers who have only learned a programming language but lack practical experience do not meet the qualifications to register.

About 70% of GEECHS's registered IT freelancers are 30-40 years old, but there has recently been a trend toward younger people registering, including an increase in people in their 20s. This is probably because of the times when young people are attracted to the work style of IT freelancers who can earn high incomes depending on their actual abilities regardless of age. A breakdown of skills reveals that more than 60% of the Company's registered freelancers are Web-related engineers, and 10% are skilled in PM or architecture, which is followed by freelancers with skills related to infrastructure, smartphone apps, and creative work.

Each year more than 1,000 people are newly registered as official IT freelancers after completing the individual explanatory meeting (in fact, more than 2,000 apply to register online each year). In FY2024/3, that number reached 1,449 people, surpassing the 1,325 for the previous fiscal year. There are more than 20,000 registered IT freelancers in the database (as of March 31, 2023). However, this number includes engineers who have already stopped working as IT engineers, and the Company estimates that about 7,000 active IT engineers have newly registered over the past seven years.

■ Communicating reasons GEECHS is selected to potential customer companies

In addition to proposing to potential customer companies who are looking for IT freelancers that they not hire people when they do not have enough workers but make use of the number of engineers they need with the necessary skills for the necessary time, GEECHS strongly communicates "four reasons that GEECHS (not other companies) is selected." The reasons are that the Company (1) can introduce ready-to-contribute engineers in as little as one business day, (2) offers reasonable proposals based on a strong understanding of the customer company, (3) provides peace of mind even following the introduction of the invoice system, and (4) makes it possible to search IT freelancers from its database.* For companies, "when GEECHS is consulted because of a slight shortage of engineers, the company finds the necessary number of IT engineers with the skills and experience for the project period, which solves the issue."

* Introduced in April 2023, **GEECHS DIRECT** is freelancer search-type platform service that makes it possible for companies to directly search for IT freelancers on the GEECHS database. Companies pay IT freelancers a monthly commissioned work fee and a uniform lump-sum ¥500,000 as a performance fee when a contract is concluded.

GEECHS boasts 1,622 customer companies as of the end of FY2024/3 an increase of 178 compared to the end of FY2023/3. This is the cumulative number of companies dealt with GEECHS from FY2017/3 onwards. The geechs job website gives the number of companies that have conducted business with the Company as 3,550 (see page 5), which is the cumulative number since before FY2016/3.

Recently, GEECHS has provided on average 1,500 IT freelancers with projects each month.



Source: Compiled by SIR from the Company Web site

Business model for the IT freelance matching business (Japan)

■ Managing and disclosing profitability gained by matching one 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.

First, 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 the Company's gross profit. Life-time value (**LTV**) is the product of ARPU and **average engagement duration** for an IT freelancer, and is average total gross profit generated by each IT freelancer when engaged. Customer acquisition cost (**CAC**) is the average cost to attract one IT freelancer, which is the total of marketing-related labor costs and advertising costs. **Unit economics** (LTV divided by CAC) indicates return on an acquisition cost per an IT freelancer—in other words, it represents cost effectiveness.

Overall, ARPU and average engagement duration have increased over the past four years because of the Company's focus on strengthening its engagement with IT freelancers as well as strong demand for IT freelancers. As a result, LTV has increase 12% each of the past two fiscal years, demonstrating that the Company has adopted a successful revenue model for its IT freelance matching business (Japan). It can also be argued that this is the result of investments in a branding ad-campaign between 2H FY2023/3 and 1H FY2024/3 that used a celebrity. The Company has strategically worked to increase awareness of the GEECHS brand, primarily to strengthen employee recruiting and education. According to the management team, staff recruiting is progressing smoothly and in line with plans. At the same time, awareness of the Company has increased as can be seen in the increase in the number of inquiries from non-IT large companies, and a larger number of companies are opening customer accounts. The number of newly registered IT freelancers has risen to 1,300–1,500 annually compared to 1,000 before the branding ad-campaign.

On the other hand, CAC has doubled in the last two fiscal years since the previous period. As a result, unit economics went from earning a gross profit of about ¥2.00 mn, equivalent to 4.5x the approximately ¥500,000 spent to attract each freelancer, to earning a gross profit of ¥2.20–¥2.50 mn through one IT freelancer in the last two fiscal years, but strategic investments have also increased, so CAC has risen to about ¥1.00 mn.

Even so, after peaking at ¥119 mn in FY2023/3 4Q, quarterly advertising expenses fell to ¥50 mn in FY2024/3 4Q, which is an appropriate level according to the management team. Advertising expense as a percentage of net sales softened to 1.4%. The management team has indicated that it will generally control CAC to an appropriate level of around ¥500,000 from FY2025/3 onwards by managing advertising expenses. However, the management team also noted that CAC may gradually increase if the Company aims to increase the number of newly registered IT freelancer to at least 1,500 annually.

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.

Note: *1 Until the previous year, each KPI was calculated based on the period average, but from the FY3/24, calculations are based on ARPU, average duration, and CAC. In line with this change, the above figures for FY3/2023 also reflect the new calculation method.

*2 Average total engagement duration including project changes

* **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.

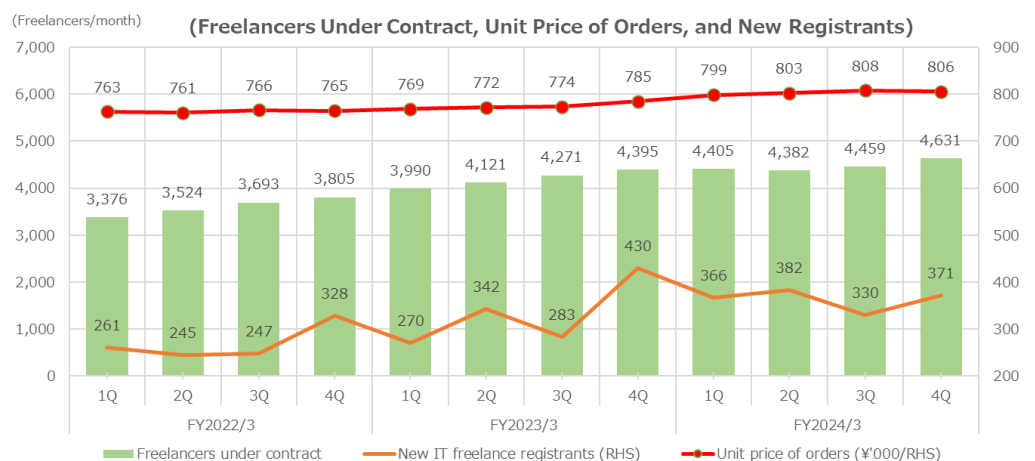
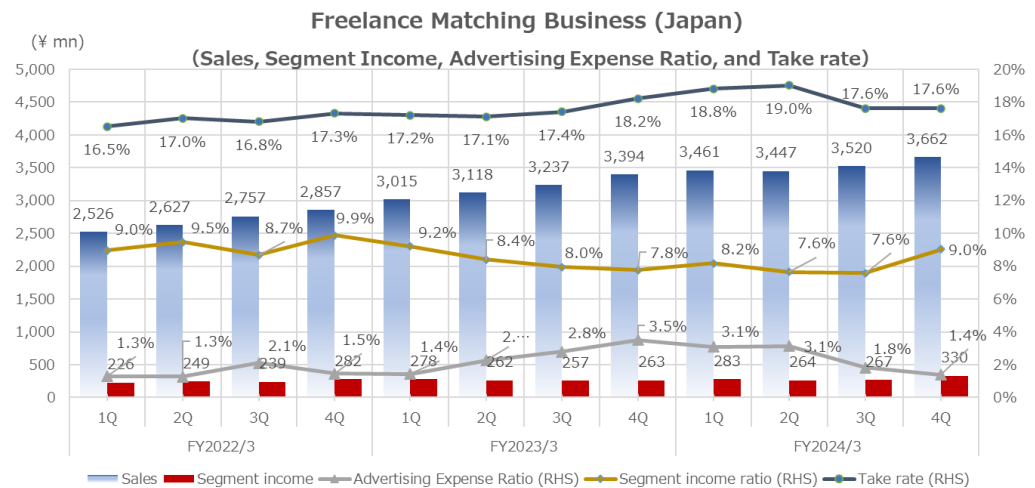
The volume of work that requires 1 person to work 1 month is 1 man-month, and the volume of work that requires 5 people to work 6 months is 30 man-months (5 x 6).

■ Earnings driven by man-months worked

Sales used for calculating profit is 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 FY2024/3, man-hours worked was 17,877, and the average monthly unit price of orders for the fiscal year was ¥804,000, which translates into a transaction value (product of man-months worked and monthly unit price of orders) of ¥14,373 mn. This is close to the ¥14,089 mn that the Company gives as its net sales.

Monthly unit price of orders is trending slightly upward because of sustained strong demand for IT human resources, rising 3.8% YoY to ¥804,000 for FY2024/3, surpassing ¥800,000 for the first time. Man-months worked is the product of the number of freelancers engaged in the project and the duration (months) each freelancers is engaged in the project—that is, engaged IT freelancers x man-months/freelancer. While man-months worked has steadily trended upward, it was difficult in 1H FY2024/3 to match companies that wanted freelancers to work onsite as conditions normalized following the COVID-19 pandemic with freelancers who have grown accustomed to fully-remote work. Man-months worked remained flat in 1Q (4,405 man-months) and 2Q (4,382 man-months), but conditions improved in 2H, and man-hours worked totaled 17,877 (+6.6% YoY) for the full fiscal year.

Newly registered IT freelancers for the full-fiscal year reached 1,449, surpassing the 1,325 for the previous year. The growth was achieved due to a successful referral program and other factors despite the planned reduction in advertising investment in the second half.



Source: Compiled by SIR from the Company IR material.

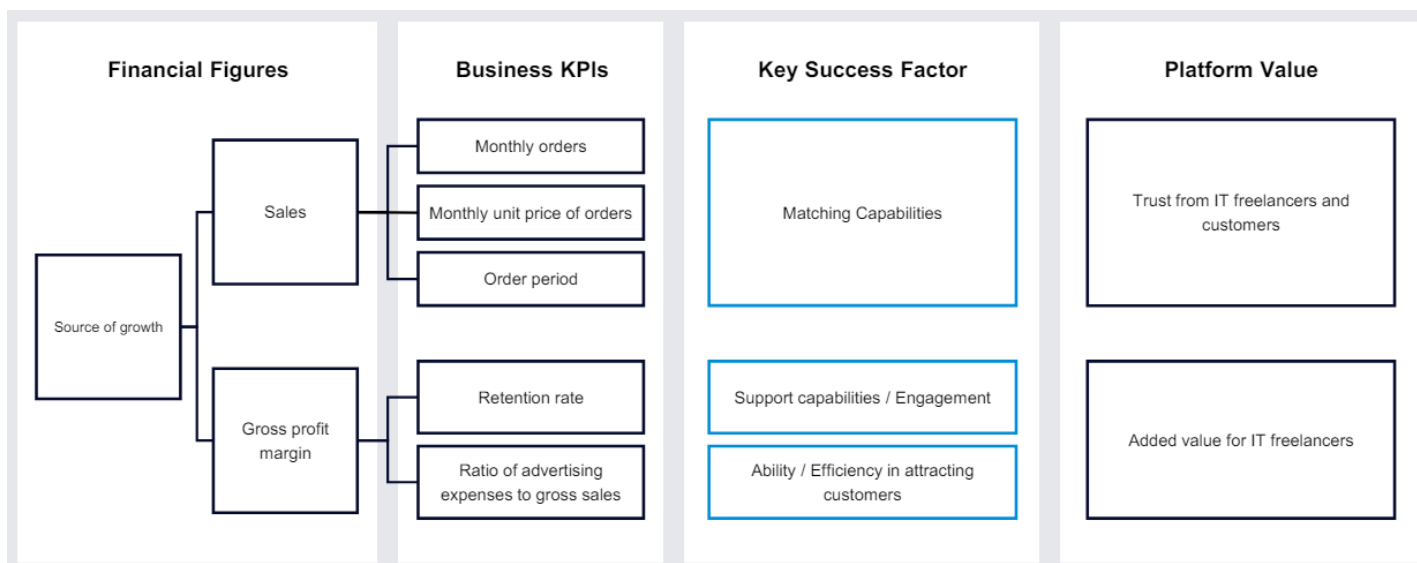
GEECHS gross profit (net revenue) is the agent fee, net sales minus compensation paid to IT freelancers, and the take rate is gross profit divided by net sales. The take rate was around 19% in 1H FY2024/3 but fell to 17.6% in 3Q and 4Q because the Company undertook for some of the consumption tax collected by IT freelancers following the introduction of the invoice system in October 2023. Even so, it is assumed the impact on earned profit will be limited because the take rate was revised before the system was introduced. In 4Q FY2024/3, the Company posted net sales of ¥3,662 mn, of which ¥645 mn was retained as gross profit.

GEECHS invested ¥51 mn in advertisements in 4Q. As noted above, the Company has generally controlled its advertising expenses to around 1.4% of net sales, an appropriate level.

Segment profit for this business, after deducting advertising expenses and labor costs (around 40% of total SG&A expenses) from the gross profit mentioned above, increased 25% YoY to ¥330 mn in 4Q and 8% YoY to ¥1,143 mn for the full fiscal year.

The following figure breaks down the Company's business model for the IT freelance matching business (Japan) discussed above. The increase in man-months worked and rising unit price of orders have driven earnings growth.

Source of Growth



Source: Excerpt from the company IR material.

*** "GEECHS Project-to-Freelance Ratio Report" gives demand trends in the IT freelance market—Cumulative quarterly Projects-to-Freelancer Ratio hits 8.60x**

https://geechs.com/newsrelease/20240509_ankenbairitsu/

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. The quarterly cumulative ratio for Jan.-Mar. 2024 was 8.60x. Because demand remains strong, it is difficult to imagine that the Company's unit price of orders will suddenly weaken.

The report includes various useful information, including trends in posted projects, skills and management abilities required by companies, and future trend projections, which probably offers hints for IT freelancers career development.

IT Freelance Matching Business (Overseas)

* **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.

■ Transitioning to strategy and organizational structure to grow the worker dispatching business

In November 2022, GEECHS acquired 70% of the shares of Launch Group Holdings Pty Ltd. (Launch), which operates an IT staffing service business in Australia, for ¥1,721 mn. GEECHS also announced that it would transform Launch and its subsidiary Launch Recruitment Pty Ltd into consolidated subsidiaries in 1Q FY2024/3. By doing so, the Company newly established its IT freelance matching business (Overseas). Launch operates a human resource service business that specializes in casually employed workers and freelancers and an MSP business* and has ongoing business with major companies. In FY22/6, the fiscal year it was acquired, Launch recorded net sales of ¥10,436 mn and pre-tax profit of ¥342 mn (translated at ¥95/A\$) and possessed a database with over 350,000 IT workers, and the annual number of engaged freelancers was approximately 7,000 man-months. The purpose of the acquisition was to expand the cross-border IT freelance matching business between Japan, the Philippines and Australia and to create business synergies as a key strategy for achieving medium- to long-term growth.

At the beginning of FY2024/3, the Company assumed that Launch would record net sales of ¥10,000 mn (assuming ¥85/A\$) with no profit by considering audit costs and goodwill amortization costs. However, the Launch recorded actual net sales of ¥7,162 mn, EBITDA of ¥83 mn, and a segment loss of ¥135 for the fiscal year, which dramatically fell short of forecasts at the time of the acquisition. Therefore, the Company recorded an impairment loss of ¥1,556 mn on goodwill and book value assets and posted an extraordinary loss on its consolidated P&L table (both translated at ¥93.35/A\$).

According to management, the main reasons for the significant shortfall in segment earnings compared to the initial plan were that customer companies restrained hiring in response to global economic conditions, as well as GEECHS misread the time it would win an MSP project of a certain size (although it ended up receiving the project).

Going forward, rather than focusing on building up its MSP business, the Company plans to shift to a strategy and organizational structure that will expand its dispatching business by increasing its customer channels through actively approaching Japanese companies in Australia from the Japan headquarters route, which was previously almost nonexistent.

The Company expects to see a recovery in net sales to ¥10,000 mn (assuming ¥99/A\$) in FY2025/3, equivalent to the initial plan, and profit contribution starting in FY2026/3.

■ Aiming for first profit primarily by expanding offshore development sales

GEECHS's Seed Tech Business provides the SaaS-type DX/IT human resource development service Sodatech, which supports non-engineer reskilling, and operates an IT study abroad business on Cebu Island (Philippines) in order to eliminate the shortage of IT human resources and train human resources who can work throughout the world. The Company also operates a commissioned offshore development business that supports service development for customer companies through teams of English-speaking IT professionals in the Philippines. The IT study abroad Seed Tech School (12-week course) on Cebu Island boasts more than 2,400 graduates who have gone on to work in 16 countries through the world. Thirty-one of the school's graduates have launched their own businesses.

In FY2024/3, the Company focused on training IT human resources, and these efforts included launching Seed Tech Camp, which provides youth who have no IT experience with training and practical opportunities to start an IT career. The business recorded net sales of ¥281 mn (+60% YoY) but a segment loss of ¥23 mn. However, for 4Q (Jan.–Mar.), the business posted record net sales of ¥84 mn, and a segment loss of only ¥2 mn. According to the management team, as conditions have normalized after the COVID-19 pandemic, there has been an upward trend in the number of non-online IT study abroad courses and offshore development has been growing in a very positive way.

Seed Tech Business

FY2024/3 Results Review

* The Company released its medium-term management plan "G100" (FY2022/3–FY2025/3) on May 14, 2021. Following revisions, the Company has set targets of net sales of ¥26.0 bn and EBITDA of ¥2.5 bn for the final year of the plan.

For FY2025/3, the Company expects to post net sales of ¥400 mn (+42% YoY) and segment profit of ¥50 mn, the first profit for the business, primarily by expanding offshore development sales as the above conditions continue to improve.

■ Results after resolving problems and aiming for future growth

GEECHS's consolidated results for FY2024/3, announced on May 10, were net sales of ¥23,739 mn (+48.4% YoY) and operating profit of ¥90 mn (-84.6% YoY), which exceeded the revised forecast of ¥50 mn announced on November 10, 2023. The Company posted a net loss of ¥1,473 mn as a result of impairment losses on goodwill of IT freelance matching business (Overseas). After bringing its overseas subsidiaries into the scope of consolidation, the Company started to announce EBITDA in FY2024/3. The Company posted EBITDA of ¥362 mn in FY2024/3, surpassing revised forecast of ¥300 mn.

As noted above, the GEECH's IT freelance matching business (Japan) did well throughout the fiscal year and drove earnings for the overall group. For the IT freelance matching business (Overseas), it posted earnings that fell slightly short of revised forecasts primarily because of misread the time it would win an MSP project orders even though it has begun to receive such orders. The most sluggish business was the game development G2 Studios, with sales declining for the second consecutive year to ¥2,111 mn and an operating loss widening to ¥356 mn. When announcing the downward revision in earnings forecasts in November, the Company also withdrew its medium-term management plan "G100," providing the explanation that it was necessary to review the plan after realizing that it would be difficult to achieve targets for the final fiscal year as a result of weaker-than-expected earnings for the G2 Studios business and mistaken estimates for the IT freelance matching business (Overseas). As a result, the Company sold off all its shares in G2 Studios as of March 29, 2024, the last day of the fiscal year, and it will be excluded from the scope of consolidation starting from FY2025/3.

This resulted in a decline in Launch goodwill and customer-related assets of ¥944 mn and ¥675 mn, respectively, on the balance sheet. Therefore, net assets shrank by ¥1,616 mn to ¥3,070 mn as the end of FY2024/3. However, proceeds from the sale of G2 Studios partially covered the negative operating cash flow, making it possible to maintain the same level of cash and deposits at the end of FY2024/3 as that for FY2023/3.

In this way, the Company not only posted a record net loss but was also forced to make various tough managerial judgements in FY2024/3. These included revising downward earnings and dividend forecasts and withdrawing its medium-term management plan during the fiscal year and recording an impairment loss and selling off a subsidiary at the end of the fiscal year. The Company needed to eliminate various problems in order to generate future growth—in other words, resolutely select and concentrate on particularly businesses in anticipation of unforeseen conditions, in SIR's view.

■ Establishing a makeup to restore profit while making new investments

The management team expects steady growth for its core IT freelance matching business (Japan), and restrains advertising expenses to 2/3 of those for the previous fiscal year, and continues focus on reinforcing its organization strength. GEECHS forecasts net sales of ¥15,800 (+12.1% YoY) and segment profit of ¥1,280 mn (+11.9% YoY). As for the IT freelance matching business (Overseas), the Company is aiming for net sales to recover to ¥10,000 mn because customer companies have recently been less averse to recruiting, and the fiscal year started well. The Company will prioritize updating its strategy and organizational structure, and the business is expected to begin to contribute to profit next fiscal year. Turning to the Seed Tech Business, the Company aims to generate net sales of ¥400 mn, the break-even point for the business, primarily by expanding offshore development net sales, and forecasts segment profit of ¥50 mn, the first time the business will post a profit.

GEECHS's FY2025/3 Plans

Medium-term Growth Strategy in preparation for disclosing the Medium-term Management Plan

*A **Project Management Office** conducts such functions as overall project management, procurement of resources necessary for projects, including funds and human resources, and coordination among related departments and stakeholders' interest.

Entities with a PMO have the benefit of quicker project management-related decision making and more accurate and profitable project promotion.

In its FY2025/3 budget, GEECHS included ¥150 mn for new investments through M&As, as an engine of growth in the medium-term growth strategy discussed below. In addition, the Company has budgeted for an increase in overall expenses and adjustments of ¥88 mn YoY. This is due to an increase in various system-related expenses accompanying personnel expansion (various type of license fees, etc.) and decline in outsourcing fees because G2 Studios was sold off.

The Company's forecasts for FY2025/3 are net sales of ¥26,300 mn (+10.8% YoY), EBITDA of ¥670 mn (+85% YoY), operating profit of ¥550 mn (+505.3% YoY), ordinary profit of ¥545 mn (560.7%), and net profit of ¥336. Having set a target dividend payout ratio of 30%, the Company will likely continue to pay a dividend per-share of ¥10. If the Company does this, SIR's calculation indicated that the Company may record on ROE of 10%.

■ Aiming to provide comprehensive IT solutions through its own assets

GEECHS has expanded from IT freelancer sharing, domain 1 where it started, to development of human resources that are in short supply and use of non-Japanese human resources, domain 2. In domain 3, its next target, the Company plans to provide comprehensive one-stop solutions to customer companies through activating its own IT human resources. Specially, the Company "will possess in-house IT consulting, PMO,* and development functions and provide total support that includes support for customer companies when they develop plans for building an IT strategy team and working with those companies to develop new products using the assets they possess through IT."

To achieve this, GEECHS must bring DX/IT human resources and organization consulting, IT consulting and PMO, and system development functions, in domains farther upstream, in-house, and the management team recognizes that it would be extremely difficult to build those from scratch. Therefore, the Company plans to do so using strategic M&As, human resource recruiting, and similar methods to reinforce technology resources through the supply of IT freelancers to newly acquired companies that handle IT consulting and commissioned development, a foundation for upstream domains. Possessing in-house IT consulting function and capturing upstream process development projects will make it possible to increase unit price of orders and profit margins. Furthermore, by being able to propose various solutions to customer internet service companies and operation system companies, the Company will be able to create projects and thus increase orders for its IT freelancers. In this way, the management team has indicated a strategic initiative of leveraging the ability of its core IT freelance business to provide human resources to promote medium-term growth for the whole company.

When formulating the Company's medium-term management plan, the management team wants to make firm preparations during the current fiscal year and has budgeted ¥150 mn for M&As and recruiting expenses. GEECHS management considers it important to assess not only the qualifications of a company's management, but also the quality of the technology and human resources that the company possesses, and whether or not it has customers in growth areas when selecting a target company for M&A. If the Company conducts an M&A, the source of funds would be cash on hand or borrowings, not equity financing, which would dilute shares.

Previous Business Domain and New Domain of Expansion

Expansion

3rd Domain

From IT Human Resources Supply to Solution Providers

Possess IT consulting, PMO, and development capabilities within the group to provide comprehensive support.

Through M&A execution, we aim to strengthen consulting capabilities and expand into DX/IT human resources, organizational consulting, and IT system development. We will hire delivery engineers for each role, utilize registered IT freelancers, and offshore IT talent to expand our business scope from upstream processes to implementation.

2nd Domain

IT Engineer Development Offshore IT Lab

IT human resources development by "Sodatech". Offshore Lab operation support.

With expertise in IT human resources development, we have a wealth of training experience with for both companies and individuals. Additionally, we have contributed to the formation of development lab teams based in Philippines. We have expanded our business to utilize "Sodatech" for in-house human resources development and even established a nearshore lab.

1st Domain

IT Freelance Sharing Agent

Supporting Japan's internet industry through freelance utilization

We possess a database of over 20,000 registered IT freelancers with diverse skills and experiences, as well as partnership with over 3,500 client companies. Since the late stages of Web1.0, we have been a leading player in the market and continue to lead the industry up to the present day.

Source: Excerpt from the Company IR material.

Share Price Insights

■ Expected revaluation with “shift to upstream domains”

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. It is rare among IT-related stock to have a calculable dividend yield, with its FY2025/3 forward PER of 14x and EV/EBITDA of less than 4x. Therefore, from the perspective of single-year fundamental valuation, it is hard to describe it as anything other than an "unprecedented value." The only reason for the large discount would be a technical one, low liquidity.

The comparable company TWOSTONE&Sons, whose core business is its Midworks business that entails matching IT freelancers with companies and permanently placing IT engineers at customers using quasi-mandate contracts, has adopted a strategy of developing up-stream projects through aggressive M&As. In April, TWOSTONE&Sons issued new shares, which resulted in an approximately 3% dilution, to finance upfront growth investments with an eye toward mid- to long-term growth, and its earnings are expected to weaken because of this. At its recent results explanatory briefing, the TWOSTONE&Sons management was asked whether its quite high valuation was reasonable, and commented, "I think the stock market is expecting that our company will steadily absorb one company after in the Sler domain." and "companies with strong growth, such as SHIFT Inc., are generally highly evaluated by the stock market."

SIR finds it interesting that "shifting to upstream domains" appears to be one of the common keywords in valuation relating, with the Company's competitor also commenting on the equity market's assessment of SHIFT's growth strategy and earnings performance.

SIR thinks that if the Company's mid-term management plan, which is likely to be released during the current fiscal year, clearly indicates the impact that a "shifting to upstream domains" would have on earnings, this could serve as an expected catalyst for the delayed recovery in the Company's share price.

Valuation comparison of peers

TSE Code Listing classification			7060	7352	3697
			Standard	Growth	Prime
Company Name			GEECHS	TWOSTONE &Sons	SHIFT
Latest act. FY			2024/3	2023/8	2023/8
Share Price	¥	2024/5/22CP	466	1,456	17,240
Shrs out.	1,000 shrs	Latest FY	10,326	41,994	17,827
Mkt Cap.	¥ mn	Latest FY	4,812	61,144	307,344
EV	¥ mn	Latest FY	2,567	61,895	301,464
PER	X	Latest FY	-3.3	355.1	48.6
		CE (current period)	14.3	970.7	41.5
PBR	X	Latest FY	1.71	68.04	9.68
PSR	X	Latest FY	0.20	6.08	3.49
		CE (current period)	0.18	4.41	2.70
EV/EBITDA	X	Latest FY	7.1	150.6	22.7
		CE (current period)	3.8	185.3	21.9
EBITDA	¥ mn	Latest FY	362	411	13,285
		CE (current period)	670	334	13,774
ROE	%	Latest FY	-41.5	21.0	22.9
Div. Yield		CE (current period)	2.15	0.03	0.00
Share Price	%	from 6 months ago	-6.4	38.7	-49.8
Change Rate	%	from 1 years ago	-43.3	160.2	-31.2

Source: Compiled by SIR from SPEEDA data and the Companies' IR material.

¥mn, %	FY2021/3 C	FY2022/3 C	FY2023/3 C	FY2024/3 C	FY2025/3 C(CE)
Total Revenue	3,428	14,341	15,998	23,740	26,300
Cost of Sales	1,389	11,557	12,999	19,596	
Gross Profit	2,039	2,783	2,999	4,144	
Gross Margin	59.5	19.4	18.7	17.5	
Selling, General and Administrative Expenses	1,301	1,650	2,409	4,053	
Operating Profit	738	1,134	589	91	550
Operating Profit Margin	21.5	7.9	3.7	0.4	2.1
Non-Operating Income	1	4	1	12	
Interest and Dividends Income	0	0	0	3	
Non-Operating Expenses	25	2	23	20	
Interest Expenses	0	0	2	18	
Ordinary Profit	714	1,136	568	82	545
Ordinary Profit Margin	20.8	7.9	3.6	0.3	2.1
Extraordinary Gains/Losses		(30)	-60	-1,550	
Extraordinary Gain				47	
Extraordinary Loss		30	60	1,597	
Pretax Profit	714	1,106	508	-1,468	
Pretax Profit Margin	20.8	7.7	3.2	-6.2	
Income Taxes	256	400	264	154	
Income Taxes - Current	419	266	228	374	
Income Taxes - Deferred	(163)	134	36	-220	
Net Profit Attribute to parent company shareholders	458	705	244	-1,622	
Net Profit				-149	
Net Profit Attribute to non-controlling shareholders	458	705	244	-1,473	336
Net Profit Margin (Attribute to parent company shareholders)	13.4	4.9	1.5	-6.2	1.3
EBITDA	815	1,200	607	362	670
EBITDA Margin	23.8	8.4	3.8	1.5	2.5
(Per share information: Yen)					
Dividends per Share	10.00	10.00	10.00	10.00	10.00
EPS	43.83	67.18	23.20	(142.75)	32.54
BPS	365.74	422.26	416.94	272.09	
(liquidity, safety and leverage)					
Current Ratio, %	223.5	394.9	269.6	242.0	
Cash/Total Assets, %	48.6	57.2	44.4	52.3	
Shareholders' Equity Ratio, %	59.05	76.12	51.67	40.13	
Financial Leverage, X	1.69	1.31	1.94	2.49	
D/E Ratio, X	0.00	0.00	0.42	0.57	
Net D/E Ratio, X	(0.82)	(0.75)	(0.44)	(0.73)	

¥mn	FY2021/3 C	FY2022/3 C	FY2023/3 C	FY2024/3 C
Total Assets	6,486	5,874	8,999	7,174
Current Assets	5,915	5,524	6,409	6,301
Cash Cash Equivalents And Short-term Investments	3,150	3,357	3,755	3,750
Accounts Receivables	1,519	2,027	2,475	2,320
Inventories	1,118	6	4	1
Allowance for Doubtful Accounts - Assets	-3	-3	-14	-15
Non-Current Assets	571	350	2,590	873
Property, Plant & Equipment (PPE)	83	25	127	83
Intangible Assets	1	1	2,130	510
Goodwill			944	
Investments and Other Assets	487	325	333	280
Investment Securities	110	130	80	35
Deferred Tax Assets - Non-Current	201	67	30	39
Total Liabilities	2,656	1,403	2,377	2,604
Current Liabilities	2,647	1,399	1,140	1,149
Trade Payables	858	1,034	474	462
Accounts Payable - Other and Accrued Expenses	64	150	226	268
Short-Term Debt	12	14	172	172
Current Portion of Long-term Debt	12	14	24	59
Advances Received	1,125	10	1,935	1,500
Non-Current Liabilities	9	5	1,627	1,379
Long-Term Borrowings	7	3		
Deferred Tax Liabilities - Non-Current			300	103
Asset Retirement Obligations - Non-Current	56		4	4
Total Net Assets	3,830	4,471	4,688	3,071
Total Shareholders' Equity	3,830	4,471	4,367	2,879
Capital Stock	1,094	1,102	1,110	1,112
Capital Surplus	1,044	1,051	1,060	1,062
Retained Earnings	1,714	2,315	2,454	556
Treasury Stock	-21	-21	-321	
Share Warrants		27	71	69
Non-controlling interest	0	0	72	192

¥mn	FY2021/3 C	FY2022/3 C	FY2023/3 C	FY2024/3 C
Cash Flows from Operating Activities	662	369	688	-4
Depreciation and Amortization - CF	77	66	18	238
Depreciation - CF	77	66	18	162
Amortization of Goodwill - CF				76
Gain/Loss on Valuation of Securities and Investment Securities		30	60	40
Cash Flows from Investing Activities	-49	-69	-1,561	317
Payments for Purchases of Stocks of Subsidiaries	-80	-50	-1,554	
Proceeds from disposal of Stocks of Subsidiaries				336
Purchases/Sales of PPE	-9	-23	-6	-4
Purchases/Sales of Intangible Assets	-1		-2	-1
Cash Flows from Financial Activities	-23	-91	1,274	-330
Proceeds from Long-Term Borrowings			1,720	
Repayments of Long-Term Debt				
Repayments of Long-Term Borrowings			-43	-172
Proceeds from Issuance of Stock	16	15	17	4
Redemption/Retirement of Stock	0	0	-300	
Cash Dividends Paid		-105	-105	-104
Changes in Cash	590	208	398	-5
Cash & Cash Equivalent - Beginning	2,559	3,150	3,357	3,755
Cash & Cash Equivalent - Ending	3,150	3,357	3,755	3,750
Free Cash Flow (FCF)	613	300	-873	313

Source: Compiled by SIR from SPEEDA data and the Company TANSIN annual report.

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