GEECHS | 7060

TSE Standard

Q4 Follow-up

GEECHS

Driving Sustainable High Margin Growth via DX/AX and FDE Expansion

Summary

■ **FY2026/3 results review — Verified evolution to high-profit model maximizing productivity**

On May 15, Geechs Inc. (hereafter, "the Company") announced its full-year results for FY2026/3. Growth in the core Japan IT Human Resources Matching Business (hereafter, "Japan IT HRM Biz") and efficiency gains from generative AI, together with an improved profit structure in IT Human Resources Matching Business, Overseas (hereafter, "Overseas IT HRM Biz") and steady progress in the Seed Tech business, contributed to results. As a result, full-year operating profit rose 76.7% YoY to JPY 875 mn, exceeding the initial plan of JPY 700 mn and the mid-term upward revision of JPY 800 mn. Free cash flow amounted to JPY 823 mn, enabling both debt repayment and a substantial dividend increase to JPY 30 per share. SIR believes the move highlights the Company's cash-generating power and strong commitment to shareholder returns. Reported ROE reached 22.2%, the highest level since listing.

■ **Clear shift to a problem-solving solutions model**

From this fiscal year the Company refreshed its corporate mission to "Updating Japan through DX and AX", and signaled a strategic move toward directly proposing DX/AX solutions. The focus is expanding service scope into the Forward Deployed Engineer (FDE) domain, in which engineers work closely on-site with customers and provide end-to-end support from identifying business issues to implementing, operating, and embedding AI-based technologies.

■ **Outlook for FY2027/3 — Advancing the transition to a sustainably high-profit structure**

The Company views this fiscal year as one of business-model redefinition. It expects a temporary profit decline in H1 due to upfront investments in hiring, training, and AI initiatives, with profit expansion accelerating from H2 onward. For the full year it plans operating profit of JPY 1,000 mn (+14% YoY) and net profit of JPY 630 mn (-2% YoY). Given the momentum of the man-months worked (which surpassed 20,000 man-months), SIR assesses the probability of achieving these targets as high.

■ **Share price insights**

Under SIR's DDM, the current share price can only be justified under a negative perpetual growth rate. Even assuming 0% long-term growth, the DDM yields a theoretical value of JPY 636. With a dividend yield of approximately 5.7%, and considering the feasibility of the Company's growth strategy to convert to a sustainably high-profit structure, SIR believes the current share price to carry a substantial margin of safety.

JPY mn	Net sales	YoY (%)	EBITDA *	YoY (%)	Op. Profit	YoY (%)	Ordi. Profit	YoY (%)	Net Profit	YoY (%)	EPS (JPY)	DPS (JPY)
2024/3	23,739	*48.4*	362	*(44.4)*	90	*(84.6)*	82	*(85.5)*	(1,473)	*N.M.*	(142.75)	10.00
2025/3	25,162	*6.0*	625	*72.8*	495	*445.4*	494	*499.6*	49	*N.M.*	4.82	10.00
2026/3	26,375	*4.8*	975	*55.8*	875	*76.7*	842	*70.4*	643	-	62.73	30.00
2027/3 CE	**28,300**	*7.3*	**1,090**	*11.8*	**1,000**	*14.2*	**970**	*15.1*	**630**	*(2.0)*	**62.01**	**32.00**
2026/3 H1	12,891	*5.8*	476	*85.8*	437	*126.2*	427	*114.5*	343	*109.2*	33.32	10.00
2027/3 H1 CE	**13,600**	*5.5*	**380**	*(20.2)*	**335**	*(23.5)*	**320**	*(25.2)*	**208**	*(39.5)*	**20.47**	**15.00**

*EBITDA: Operating Profit + Depreciation + Amortization of goodwill + Stock-based compensation expenses+ Retirement benefit expenses Note: figures may differ from the Company's material due to differences in SIR's financial data processing and the Company's reporting standards. Source: Complied by SIR from the Company IR material.

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.
- Transform the business model to shift growth into a higher gear.

Key Indicators	
Share price (6/1)	564
52W/H (25/8/25)	713
52W/L (25/6/2)	453
10Y/H (19/4/2)	2,715
10Y/L (24/8/5)	327
Shrs out. (1K shrs)	10,160
Mkt cap (JPY mn)	5,730
EV (JPY mn)	3,953
FY26/3 Equity ratio	38.7%
FY26/3 ROE (act)	22.2%
FY26/3 P/B (act)	1.89x
FY27/3 P/E (CE)	9.1x
FY27/3 EV/EBITDA(CE)	3.63x
FY27/3 DY (CE)	5.67%

Daily Stock Price Chart (One year)

Source: Trading view

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Redefining the business model

- DX: Digital transformation
- AX: AI transformation

■ Evolving into a company that is "Updating Japan through DX and AX"

The Company has updated the phrase that symbolized its business, "Solving the Shortage of IT Human Resources in Japan," into its corporate mission, "Updating Japan through DX and AX." This is more than a simple change in slogan. It reflects the Company's determination to redefine the value it delivers, expanding beyond its traditional focus on "matching freelance IT talent" to include "providing DX and AX solutions that enhance corporate productivity itself."

Specifically, the Company plans to expand the scope of its services beyond simple technology matching into the Forward Deployed Engineer (FDE) domain, in which engineers work closely on-site with customers and provide end-to-end support from identifying business issues to implementing, operating, and embedding AI-based technologies. SIR views this as effectively equivalent to a "second founding declaration."

Behind this shift is a dramatic change in the software development environment driven by the rapid adoption of generative AI. Going forward, IT talent will need not only implementation skills, but also the ability to adapt to business processes built around AI. The Company will continue to qualitatively upgrade its database of registered IT freelancers, while also evolving into a business model in which it directly proposes DX and AX as solutions.

The table below compares the changes in the Company's business model from FY2027/3 onward with its previous priority measures.

Key issue	Priority measures through FY2026/3	Priority measures from FY2027/3
① **Corporate mission**	"Solving the Shortage of IT Human Resources in Japan" (as a corporate message)	**"Updating Japan through DX and AX"** — transforming Japanese society from the ground up
② **Form of Value delivered**	IT Human Resources matching: connecting individual IT freelancers on a one-off basis	In addition to the left, deploy on-site solution-oriented services such as **FDE (Forward Deployed Engineer)** and **AI-agile teams**
③ **Contracting and pricing philosophy**	Time-based billing (man-month rates / quasi-contract) where fees scale with hours worked	In addition to the left, **value-based contracts** (project work) that allow efficiency gains from AI to flow directly to the Company margins
④ **Database strategy**	Secure scale in registered IT engineers (headcount / registrations)	Shift to "**a database focused on AI-driven development and PM Talent**" via reskilling support
⑤ **Target customer segments**	Primarily IT/internet service companies and system integrators (SIers)	Expand beyond IT/SIers to pursue general corporates with DX/AX needs (mid-sized to enterprise, regional SMEs)
⑥ **Development areas /channels**	Focus on major metropolitan areas (e.g., Tokyo metro)	Expand customer base into regional cities that face acute IT/AX talent shortages as well as metropolitan areas
⑦ **SME support measures**	Bespoke talent placement and a SaaS-type digital human resource development service Sodatech	Full rollout of "Digishoku" — one consultant concurrently supporting 5–10 companies and sharing specialist knowledge
⑧ **Internal AI and sales organization**	Improve efficiency and productivity in the IT HR matching business through use of GEECHS AI	Develop personnel capable of business development and transition to a solutions business that owns customer problems end-to-end (requirements definition through execution)
⑨ **Global business collaboration**	Recovery phase: Return to profitability in Australia through fixed-cost reduction and headcount optimization	Growth phase: APAC synergy model — projects contracted in Australia and developed in the Philippines

Source: Compiled by SIR from the Company IR materials

- **PM:** Project Manager
The person effectively responsible for a project, making final decisions and formulating strategy.

- **PMO:** Project Management Office
A function that supports on-site PMs and handles administrative work, data analysis, coordination, and related tasks.

Changes in social issues highlighted by customer surveys

The Company explains that this **shift** was prompted by findings from its own customer survey and analysis in sources such as its quarterly "GEECHS Project-to-Freelance Ratio Report." The Company believes that, as AI begins to take hold, the social issues facing Japan's IT workplaces are rapidly shifting from a "quantitative shortage of IT talent" to a "lack of capabilities for implementing and executing DX/AX." This helped the Company see the need to adjust the direction the Group should take going forward.

The **environmental changes** identified by the Company are as follows. 1) Although more than 96% of companies have begun using generative AI, only 12% have standardized and embedded its use across the organization, creating an "adoption paradox," or a gap between introduction and adoption. 2) In enterprise domains and SIer worksites with strict security requirements, AI usage remains stalled at the proof of concept (PoC) stage. 3) Downstream processes such as coding are increasingly being automated by AI, creating a tendency toward excess supply of simple implementers. Meanwhile, 4) the ability to lead security and quality from the requirements definition stage has become a bottleneck, 5) there is a shortage of upstream talent capable of deciding "what / why" to build, and 6) within the Company's own project mix, demand is rising sharply for upstream processes such as development project managers, PMOs, and IT consultants.

Priority measures under the new business strategy

To strengthen customer problem-solving capabilities while also improving its own profitability, the Company will implement the following priority measures in FY2027/3, mainly in the Japan IT HRM Biz and Seed Tech business.

1) Shifting to a database (DB) focused on AI-driven development and PM talent
The Company will provide its roughly 24,000 registered freelancers, one of the largest pools in Japan, with a three-stage upskilling program designed to equip them for AX consulting and PM work. The three stages are Phase 1, foundation lectures, Phase 2, applied & individual practice, and Phase 3, comprehensive and team-based practice. It will also establish an "AX/PM Community" that brings together premium talent capable of fully leveraging AI, thereby creating clear differentiation from other agencies and strengthening its ability to win high value projects.

2) Actively securing "AI solutions" through lab-style development
The Company will move away from its traditional individual matching model : its employees will serve as PMs overseeing engagements and will deliver integrated "AI-enabled agile hybrid teams," with AI-proficient freelancers executing the hands-on work under PM coordination. The Company will promote this solution-based contracting model.

3) Strengthening and expanding the customer base in regional cities
The Company will address demand from companies in regional cities where IT/AX talent shortages are pronounced and seek to expand its customer company count.

4) Establishing Digishoku, a hands-on support service for SMEs
This is a hands-on support service mainly targeting SMEs, providing immediately effective DX and AI talent with practical experience at a low price starting from JPY 200,000 per month per company. While major consultants charge roughly JPY 4 mn per man-month, Digishoku uses an "expert sharing model," in which each professional efficiently guides projects for 5 to 10 companies simultaneously. This enables both overwhelmingly low cost and high profitability. The model achieves high-quality service scalability through seamless coordination among back-office support from the Company's AI/DX planners, the horizontal deployment of industry-specific expertise, and Seed Tech's offshore development lab in Cebu, Philippines, which has strengths in both English and technology.

5) The Overseas IT HRM Biz's sustained profitability and APAC synergy initiatives *(See p.5)*

FY2026/3 Results Review

■ Verified shift to an AI-led high-profit model that maximizes productivity

In Q4 (Jan–Mar)of FY2026/3, the Company delivered operating profit of JPY 220 mn, an increase of nearly 50% YoY, driven by growth in the Japan IT HRM Biz and a narrowing loss in the Overseas IT HRM Biz. The full year operating profit came in at JPY 875 mn, up 76.7% YoY, exceeding the initial plan of JPY 700 mn and the upward revision of JPY 800 mn at the H1 results announcement, with a substantial improvement of operating margin to 3.3% from 2.0% in FY2025/3.

The Company's **Japan IT HRM Biz**, its main growth driver, posted net sales increase by 8.9% YoY to JPY 16,731 mn. To meet rising demand for highly skilled AI talent, the Company increased its order prices and take rates, which directly contributed to higher sales. As a result, the segment profit rose to a record JPY 1,397 mn, up 8.8% YoY. The man-months worked increased 8.3% YoY to 20,709 man-months on a full-year basis — the first time the Company has exceeded 20,000 man-months. Notably, by rigorously streamlining operations with its in-house GEECHS AI, the Company limited headcount growth to just 1.6% while achieving an 8.9% sales increase YoY. SIR views this as evidence that the Company is structurally evolving from a labor-intensive model, where fixed costs rise directly with headcount, to an AI-driven, "high-profit model that maximizes per-employee productivity."

Under the **Overseas IT HRM Biz**, the Company operates a human resource service business that specializes in casually employed workers and freelancers and MSP* business, mainly in Sydney and Melbourne through its consolidated subsidiary, Launch Group Holdings Pty Ltd. In FY2026/3, the Company rebuilt its earnings structure by shifting toward high-margin projects focused on small and medium-sized enterprises and by strengthening its organizational framework, resulting in full-year segment profit turning positive at JPY 33 mn, compared with a JPY 155 mn loss in the previous year.

In the **Seed Tech business**—which provides "Sodatech," the SaaS-type IT/DX/AI human resource development service for reskilling non-engineers, offers "Digishoku*," a digital talent provision service for SMEs, and operates a digital study-abroad program in Cebu, Philippines. In FY2026/3, robust growth in offshore development, together with strong performance in the digital study business in Q2, drove full-year sales to a record JPY 478 mn, up 45.2% YoY. In Q4, the Company prioritized upfront investments—mainly for the hiring and development of new digital business professionals for the "Digishoku" service, launched in July of last year—yet full-year segment profit still exceeded the post-revision plan of JPY 20 mn, finishing at JPY 34 mn.

* **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.

* **Digishoku** is a service that dispatches digital business professionals trained under the Sodatech program to serve as advisors to SME management. These professionals lead and execute digital transformation initiatives at client companies, providing one stop support from planning and system implementation through to maintenance and operations.

Segment Information

Segment	Business	(JPY mn)	FY2025/3	FY2026/3 (Old)	YoY (%)	FY2025/3 3Q(9M)	FY2026/3 3Q(9M)	FY2025/3 Jan-Mar	FY2026/3 Jan-Mar	YoY (%)	FY2026/3 (New)	FY2027/3 CE	YoY (%)
Japan	IT engineer and customer company matching business in Japan	Net Sales	15,363	16,731	8.9	11,324	12,465	4,038	4,265	5.6	16,371	17,300	5.7
		Op. Profit	1,284	1,397	8.8	925	1,022	359	374	4.2	1,434	1,550	8.1
		OP Margin	8.4%	8.3%		8.2%	8.2%	8.9%	8.8%		8.8%	9.0%	
Overseas	IT engineer and customer company matching business in Australia	Net Sales	9,414	9,243	(1.8)	7,098	6,897	2,316	2,346	1.3	9,243	10,000	8.2
		Op. Profit	(155)	33	T.B.	(114)	40	(41)	(6)	Loss	33	60	77.2
		OP Margin	-1.6%	0.4%		-1.6%	0.6%	-1.8%	-0.3%	Shrunk	0.4%	0.6%	
Seed Tech	Human resources development tool sales, IT study abroad program, and offshore development	Net Sales	329	478	45.2	231	355	98	123	25.5	852	1,000	17.2
		Op. Profit	5	34	504.3	(7)	33	12	1	(91.7)	(2)	20	N/A
		OP Margin	1.5%	7.1%		-3.0%	9.3%	12.2%	0.8%		-0.2%	2.0%	
Other	Marketing video production for golf club manufacturers, etc.	Net Sales	82	-		68	-	13	-		-	-	
		Op. Profit	-18	-		(14)	-	-5	-		-	-	
		OP Margin	-22.0%			-19.8%		-38.5%					
Tolal		Net Sales	25,162	26,375	4.8	18,705	19,667	6,457	6,707	3.9	26,375	28,300	7.3
		Op. Profit	495	875	76.7	348	654	147	220	49.8	875	1,000	14.2
		OP Margin	2.0%	3.3%		1.9%	3.3%	2.3%	3.3%		3.3%	3.5%	

Note: From FY2027/3, Alive Inc.'s business segment classification was changed from "Japan IT HRM Biz" to "Seed Tech business."
Source: Complied by SIR from the company IR materials.

Company Forecasts for FY2027/3

■ Advancing the transition to a sustainably high-profit structure

In FY2027/3, the Company projects net sales of JPY 28,300 mn (+7.3% YoY) and operating profit of JPY 1,000 mn (+14.2% YoY), positioning the year as the start of a further growth phase. It expects H1 operating profit to remain at JPY 335 mn, as upfront investments will be concentrated in service infrastructure development for Digishoku, including recruitment and training, and in AI utilization strategies under the new business strategy. In H2, it expects these investments to begin generating returns and contributing to earnings in earnest, with operating profit projected to accelerate sharply to JPY 665 mn.

The Company expects net profit to come in at JPY 630 mn (-2.0% YoY). If achieved, it should maintain ROE of around 20%. Projected EPS is JPY 62.01, and based on its target dividend payout ratio of around 50%, the Company plans to raise its annual dividend by JPY 2 to JPY 32 (interim dividend of JPY 15 and year-end dividend of JPY 17).

In April 2026, the Company carried out an internal Group reorganization in which its consolidated subsidiary Seed Tech absorbed Alive Inc. By consolidating its full-time employee resources, it will pursue high-margin contract development projects and the early launch of Digishoku, while strengthening the earnings base of the Group as a whole. As a result of this reorganization, Alive Inc.'s earnings, which had been included in the Japan IT HRM Biz through FY2026/3, have been reclassified to the Seed Tech business from the beginning of FY2027/3.

For the **Japan IT HRM Biz** under the new segment classification, the Company forecasts full-year net sales of JPY 17,300 mn (+5.7% YoY) and segment profit of JPY 1,550 mn (+8.1% YoY) with the segment profit margin expected to improve to 9.0%. Continued increases in the unit price of orders and the take rate should feed directly into higher sales, and the business will also begin offering the AI solutions described earlier.

For the **Seed Tech business** under the new segment classification, the Company forecasts full-year net sales of JPY 1,000 mn (+17.2% YoY) and segment profit of JPY 20 mn, after factoring in goodwill amortization for Alive Inc. While continuing to expand its order pipeline and invest in infrastructure and the service framework for Digishoku, it intends to maintain growth in the offshore development and education businesses and steadily increase both sales and profit. The pipeline for Digishoku has been growing recently, and the Company says it is seeing a positive response from higher orders and upselling this fiscal year.

■ Fifth priority measure to establish sustained profitability in the Overseas IT HRM Biz and pursue APAC synergy initiatives

The **Overseas IT HRM Biz** in Australia had been restructuring unprofitable areas. By FY2026/3, it had completed fixed cost reductions through office relocation and organizational reforms including a CEO replacement.

In FY2027/3, the business will narrow its focus to high-quality industries with strong pricing power and steady demand, such as telecommunications, financial services, technology, and government-related fields. The aim is to strengthen new client acquisition and expand share among existing customers. To reinforce margins, it will thoroughly pursue a strategy of selectively winning high-margin projects from SMEs and government-related customers, where talent acquisition is difficult. In addition, the Company will begin full-scale APAC-wide synergy initiatives from FY2027/3 by leveraging shared Group assets. Specifically, high price local projects won by Launch in Australia will be linked to Seed Tech's offshore development lab in Cebu, Philippines, with development work handled by teams that offer strong cost advantages. Through this approach, the Company aims to significantly improve margins while creating new earnings opportunities, targeting full-year net sales of JPY 10,000 mn (+8.2% YoY) and a recovery in segment profit to JPY 60 mn, roughly 1.8x the previous year.

Trends in Japan IT HRM Biz

* **Man-month** is one of the units of work volume, the volume of work that one person can complete each month. Man-month unit price is the order price in terms of price per man-month.

Man-months worked is the product of the number of freelancers working on a job and the duration (months) each freelancer is engaged in the project.

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

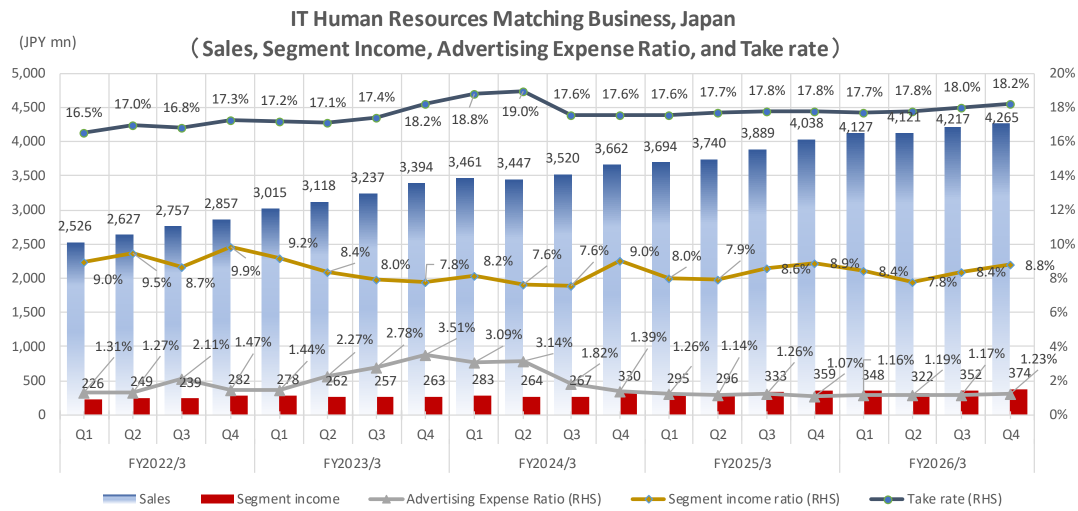
** GEECHS gross profit (net revenue) is the agent fee, net sales minus compensation paid to IT freelancers, and the **take rate** is gross profit divided by net sales.

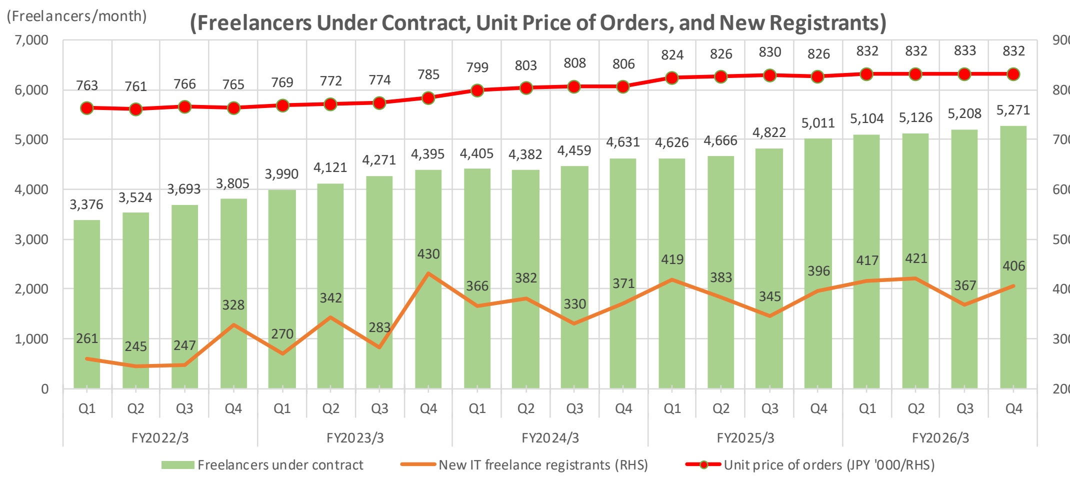
■ Confirmed that Japan IT HRM Biz is progressing smoothly

Sales in the Japan IT HRM Biz represent the amount earned by matching IT freelancers with work requests from customer companies—that is price of work orders = transaction value. The transaction value for the Japan IT HRM Biz is calculated as man-months worked* x monthly unit price of orders (one man-month is the amount of work one IT freelancer does in one month). In the three-month-period of Q4 FY2026/3, **man-months worked** came to a record high 5,271 reflecting the Company's ongoing efforts to strengthen its relationships with IT freelancers. **Monthly unit price of orders** rose steadily to JPY 832,000, up 0.7% YoY, supported by continued strong demand for IT human resources as well as sales efforts, including price negotiations to reflect rising wages. This translated to a transaction value of JPY 4,385 mn. This is close to the JPY 4,265 mn that the Company reports as its net sales.

The take rate**, which had been hovering in the high 17% range since the invoice system began in October 2023, edged up to 18.2% in Q4. As a result, in Q4 FY2026/3, the Company posted net sales of JPY 4,265 mn, of which JPY 776 mn was retained as gross profit (JPY 719 mn in Q4 FY2025/3). The Company is strategically aiming to raise the profitability of new orders while also encouraging IT freelancers to register as qualified invoice-issuing businesses under the new invoicing system. As part of these initiatives, its take rate is improving structurally, the Company explained.

New registrants totaled 406 in Q4, increasing from 396 in the same period last year. In Q4 FY2026/3 alone, the Company brought in 34 **new customer companies**, bringing the total to 1,992 companies as of the end of March 2026.





Source: Compiled by SIR from the Company IR materials

"GEECHS Project-to-Freelance Ratio Report" gives demand trends in the IT freelance market—Cumulative quarterly Projects-to-Freelancer Ratio hits 5.75x

https://www.geechs.com/newsrelease/20260512_ankenbairitsu/

(Only in Japanese)

■ The profitability of the Japan IT HRM Biz is at its highest level

The number of freelance project listings from these companies on the Company's job search site **geechs job** (https://geechs-job.com/) had surpassed 9,900 listings as of May 28.

The Company conducted a comparative analysis of this over time from the perspective of profit gained per IT freelancer. GEECHS manages how well it secures IT freelancers, its source of earnings, using the following KPIs and discloses that information every half year. The 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 was JPY 144,000 for FY2026/3, slightly increased from FY2025/3. The **average engagement duration** for IT freelancers has also increased to 19.5 months (annualized), a record high, driven by improved engagement with IT freelancers. Multiplying both of these figures yields a life-time value (**LTV**) of JPY 2,808,000, based on the average gross profit generated by an IT freelancer during their engagement. A modest increase in advertising expenses in Q4 pushed the average acquisition cost per IT freelancer (**CAC**) up to JPY 522,000, which remains within an acceptable range, and the **Unit Economics**, or return on IT freelancer acquisition cost, came to a record high of 5.4x.

The Company controlled its advertising expense ratio at a reasonably appropriate level in the low 1% range. Furthermore, it worked to create a forward-looking business structure designed to support sustainable growth, such as by adding headcount to bolster its organization and improving internal training and development, while also systematically spending its budget, particularly on personnel expenses (which account for around 40% of SG&A expenses). As a result, its full-year **segment profit** for the business reached a record high of JPY 1,397 mn, up 8.8% YoY.

■ The "GEECHS Project-to-Freelance Ratio Report" indicates Quality Shift in IT Demand

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"*. According to this report, the quarterly cumulative ratio for January-March 2026 was high at 5.75x. It has been gradually trending downward. This does not, however, indicate a decline in demand; rather, it suggests that demand for IT talent is shifting from "general-purpose development capacity (quantity)" toward "high productivity enabled by AI-driven capabilities (quality)." The latest edition of the report explains that, with the rapid spread of AI technologies, the skill requirements for IT freelancers are moving upstream from mere "development and implementation." In addition to the ability to write source code, expertise closer to security consulting—such as risk-mitigation measures associated with AI adoption, governance design, and rule-setting—is increasingly required.

KPIs for The Japan IT HRM Biz

KPI	Definition	FY22/3	FY23/3	FY24/3	FY25/3	FY26/3
ARPU (thousand yen)	Average monthly unit price (gross profit) per IT freelancer	123	130	141	142	144
Average engagement duration (months)	Average duration of engagement for an IT freelancer*2	16.4	17.3	17.8	18.9	19.5
LTV (thousand yen)*1	Average gross profit generated by one IT freelancer during their engagement (= ARPU x Average engagement duration)	2,017	2,249	2,510	2,683	2,808
CAC (thousand yen)	Average acquisition cost per IT freelancer	473	998	1,036	473	522
Unit Economics*1	Return on IT freelancer acquisition cost (= LTV / CAC)	4.5	2.3	2.4	5.7	5.4

*1 Until FY2023/3, each KPI was calculated based on the period average, but from the FY2024/3, calculations are based on ARPU, average duration, and CAC. In line with this change, the above figures for FY2023/3 also reflect the new calculation method. *2 Average total engagement duration including project changes.
Source: The Company's IR materials

Share Price Insights

■ Implied expected growth rate calculated from DDM and current share price is below 0%?

SIR believes that the Company's share (JPY 564 at the June 1 closing) is being left with a low valuation, even among low-priced stocks from a single-year fundamental perspective, with a forward P/E ratio of 9.1x, EV/EBITDA of 3.6x, and a dividend yield of approximately 5.7% based on figures at FY2027/3. The Management also recognizes that the equity market's valuation of the Company has not caught up with its structural shift to a higher-profit business model, and views raising the Company's visibility and liquidity in the market as a key issue.

SIR used a Dividend Discount Model (DDM) to work out what level of dividend growth is factored into the latest share price. In calculating the Company's cost of shareholders' equity, the risk-free rate was set at 2.66% based on the Ministry of Finance's interest rate data [1], the implied equity risk premium was set at 2.93% based on the Stock Market Data website [2], and the Company's beta value was set at 0.869, based on the Company's daily stock data for the past three years from SPEEDA. As a result, the cost of shareholders' equity came to 5.20%. Next, the base dividend was set at JPY 32 for FY2027/3, with the perpetual growth rate remaining the same for FY2028/3 onward. Furthermore, SIR adjusted the perpetual growth rate so that the theoretical value per share would approach the latest share price (JPY 564), but the results showed that the latest share price can only be justified under a negative perpetual growth rate. Even assuming 0% growth, SIR estimates the theoretical value per share at JPY 636. The sensitivity analysis in the table below provides a data table with Implied Equity Risk Premium (Eq.RP) and perpetual growth rate as variables, and indicates the Eq.RP and perpetual growth rate levels implied by the latest share price range (highlighted in light blue).

In other words, the share price reflects little to none of the Company's cash-generating capability or its strong commitment to shareholder returns. However, the stock market does not expect the Company's sustainable growth rate of 9.8% (calculated as projected ROE of 20% x (1 - pledged dividend payout ratio of 51%), which is nearly equivalent to the Expected annual growth rate of BPS). Besides, it implies that there is substantial upside potential should the certainty of profit growth improve.

[1] **The Ministry of Finance's interest rate data**

https://www.mof.go.jp/jgbs/reference/interest_rate/index.htm

[2] **The Stock Market Data website**

https://stock-marketdata.com/riskpremium-japan.html

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

	Forecasts 2027/3	2028/3	2029/3	2030/3	2031/3
Dividend per Share (JPY)	**32.00**	**32.00**	**32.00**	**32.00**	**32.00**
DPS growth rate (same as Perpetual Growth Rate)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Calculating the cost of capital

Calculation of Debt Cost (End of 2026/3)		
Interest expense	45	JPY mn
Interest-bearing debt (term-ave.)	2,041	JPY mn
Pre-tax Debt Costs	2.21%	
Effective tax rate	34.3%	
After-tax debt costs	1.45%	

DDM Analysis (JPY)

Present value of dividends for 5 years	142
Perpetual Growth Rate	0.0%
Perpetual Growth Rate × DPS in the final fiscal year	32
Terminal Value	615
Present value of Terminal Value	494
Theoretical value per Share	636

Calculating the Cost of Capital (CAPM)

Risk-Free Rates		2.66%
Beta		0.869
Equity Risk Premium		2.93%
Cost of Equity		5.20%
Interest-bearing debt	1,970	25.6%
Market Cap.(as of June 1)	5,730	74.4%
Total	7,700	100.0%
Weighted Average Cost of Capital		4.24%

Sensitivity analysis

Eq. RP \ Perpetual Growth Rate	0.0%	0.5%	1.0%	1.5%	2.0%
2.50%	684	763	862	992	1,167
3.00%	629	695	776	880	1,014
3.50%	583	639	707	791	898
4.00%	543	591	648	719	805
4.50%	508	550	599	659	731
5.00%	478	515	558	608	669
5.50%	451	484	521	565	617

Source: Compiled by SIR from the Company financial statements.

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