

This PDF document is an updated note on the company. A comprehensive version of the report on the company, including this latest update, is available on [our website](#) and various professional platforms.

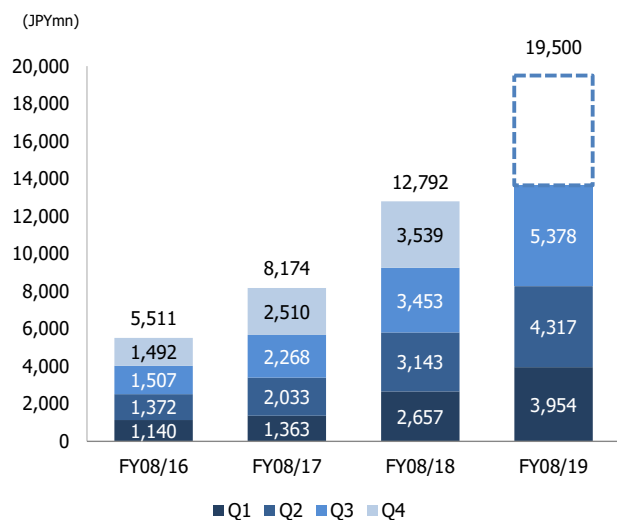
On **July 11, 2019**, SHIFT Inc. announced earnings results for Q3 FY08/19.

| Cumulative (JPYmn) | FY08/16 | | | | FY08/17 | | | | FY08/18 | | | | FY08/19 | | | FY08/19 | |
|---------------------|---------|-------|-------|-------|---------|--------|--------|--------|---------|---------|--------|--------|---------|--------|--------|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | % of FY | FY Est. |
| Sales | 1,140 | 2,512 | 4,019 | 5,511 | 1,363 | 3,396 | 5,664 | 8,174 | 2,657 | 5,800 | 9,253 | 12,792 | 3,954 | 8,271 | 13,649 | 70.0% | 19,500 |
| YoY | 73.3% | 77.2% | 77.2% | 67.6% | 19.6% | 35.2% | 40.9% | 48.3% | 94.9% | 70.8% | 63.4% | 56.5% | 48.8% | 42.6% | 47.5% | | 52.4% |
| Gross profit | 341 | 761 | 1,252 | 1,695 | 399 | 937 | 1,540 | 2,279 | 779 | 1,697 | 2,784 | 3,891 | 1,269 | 2,686 | 4,332 | | |
| YoY | 42.1% | 52.8% | 65.2% | 57.7% | 17.0% | 23.1% | 23.0% | 34.5% | 95.2% | 81.1% | 80.8% | 70.7% | 62.9% | 58.3% | 55.6% | | |
| GPM | 29.9% | 30.3% | 31.2% | 30.8% | 29.3% | 27.6% | 27.2% | 27.9% | 29.3% | 29.3% | 30.1% | 30.4% | 32.1% | 32.5% | 31.7% | | |
| SG&A expenses | 285 | 559 | 870 | 1,177 | 376 | 862 | 1,413 | 1,887 | 546 | 1,156 | 1,880 | 2,690 | 950 | 2,202 | 3,437 | | |
| YoY | 83.9% | 68.9% | 61.4% | 55.7% | 31.9% | 54.2% | 62.4% | 60.3% | 45.2% | 34.1% | 33.1% | 42.6% | 74.0% | 90.5% | 82.8% | | |
| SG&A-to-sales ratio | 25.0% | 22.3% | 21.6% | 21.4% | 27.6% | 25.4% | 24.9% | 23.1% | 20.5% | 19.9% | 20.3% | 21.0% | 24.0% | 26.6% | 25.2% | | |
| Operating profit | 55 | 202 | 381 | 517 | 23 | 74 | 126 | 391 | 232 | 541 | 904 | 1,200 | 318 | 483 | 894 | 59.6% | 1,500 |
| YoY | -35.3% | 21.0% | 74.8% | 62.1% | -58.2% | -63.4% | -66.9% | -24.4% | 908.7% | 631.1% | 617.5% | 206.9% | 37.1% | -10.7% | -1.1% | | 25.0% |
| OPM | 4.8% | 8.0% | 9.5% | 9.4% | 1.7% | 2.2% | 2.2% | 4.8% | 8.7% | 9.3% | 9.8% | 9.4% | 8.0% | 5.8% | 6.6% | | 7.7% |
| Recurring profit | 55 | 206 | 384 | 569 | 37 | 98 | 168 | 440 | 264 | 562 | 932 | 1,238 | 320 | 479 | 889 | 61.3% | 1,450 |
| YoY | -29.5% | 26.4% | 78.6% | 80.6% | -32.7% | -52.4% | -56.3% | -22.7% | 613.5% | 473.5% | 454.8% | 181.4% | 21.2% | -14.8% | -4.7% | | 17.1% |
| RPM | 4.8% | 8.2% | 9.6% | 10.3% | 2.7% | 2.9% | 3.0% | 5.4% | 9.9% | 9.7% | 10.1% | 9.7% | 8.1% | 5.8% | 6.5% | | 7.4% |
| Net income | 37 | 130 | 221 | 307 | 9 | 27 | 55 | 208 | 163 | 340 | 567 | 368 | 193 | 261 | 517 | 57.5% | 900 |
| YoY | -26.0% | 25.0% | 59.0% | 57.4% | -75.7% | -79.2% | -75.1% | -32.2% | 1711.1% | 1159.3% | 930.9% | 76.9% | 18.4% | -23.2% | -8.8% | | - |
| Net margin | 3.2% | 5.2% | 5.5% | 5.6% | 0.7% | 0.8% | 1.0% | 2.5% | 6.1% | 5.9% | 6.1% | 2.9% | 4.9% | 3.2% | 3.8% | | 4.6% |

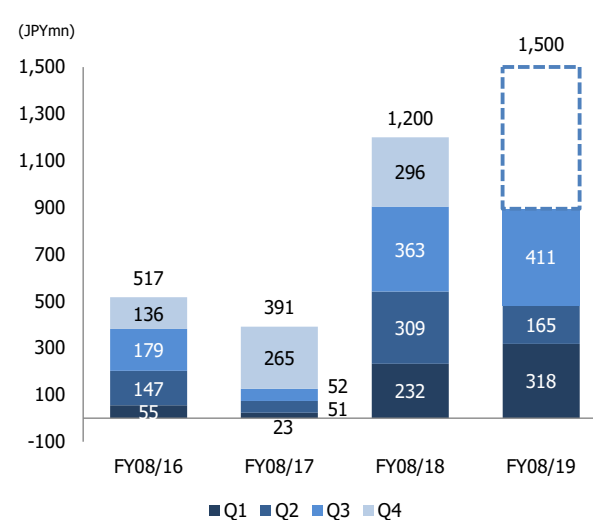
| Quarterly (JPYmn) | FY08/16 | | | | FY08/17 | | | | FY08/18 | | | | FY08/19 | | | | |
|---------------------|---------|-------|--------|-------|---------|--------|--------|-------|---------|--------|--------|-------|---------|--------|-------|--|--|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | | |
| Sales | 1,140 | 1,372 | 1,507 | 1,492 | 1,363 | 2,033 | 2,268 | 2,510 | 2,657 | 3,143 | 3,453 | 3,539 | 3,954 | 4,317 | 5,378 | | |
| YoY | 73.3% | 80.5% | 77.3% | 46.3% | 19.6% | 48.2% | 50.5% | 68.2% | 94.9% | 54.6% | 52.2% | 41.0% | 48.8% | 37.4% | 55.8% | | |
| Gross profit | 341 | 420 | 491 | 443 | 399 | 538 | 603 | 739 | 779 | 918 | 1,087 | 1,107 | 1,269 | 1,417 | 1,646 | | |
| YoY | 42.1% | 62.8% | 88.8% | 39.7% | 17.0% | 28.1% | 22.8% | 66.8% | 95.2% | 70.6% | 80.3% | 49.8% | 62.9% | 54.4% | 51.4% | | |
| GPM | 29.9% | 30.6% | 32.6% | 29.7% | 29.3% | 26.5% | 26.6% | 29.4% | 29.3% | 29.2% | 31.5% | 31.3% | 32.1% | 32.8% | 30.6% | | |
| SG&A expenses | 285 | 274 | 311 | 307 | 376 | 486 | 551 | 474 | 546 | 610 | 724 | 810 | 950 | 1,252 | 1,235 | | |
| YoY | 83.9% | 55.7% | 49.5% | 41.5% | 31.9% | 77.4% | 77.2% | 54.4% | 45.2% | 25.5% | 31.4% | 70.9% | 74.0% | 105.2% | 70.6% | | |
| SG&A-to-sales ratio | 25.0% | 20.0% | 20.6% | 20.6% | 27.6% | 23.9% | 24.3% | 18.9% | 20.5% | 19.4% | 21.0% | 22.9% | 24.0% | 29.0% | 23.0% | | |
| Operating profit | 55 | 147 | 179 | 136 | 23 | 51 | 52 | 265 | 232 | 309 | 363 | 296 | 318 | 165 | 411 | | |
| YoY | -35.3% | 79.3% | 251.0% | 34.7% | -58.2% | -65.3% | -70.9% | 94.9% | 908.7% | 505.9% | 598.1% | 11.7% | 37.1% | -46.6% | 13.3% | | |
| OPM | 4.8% | 10.7% | 11.9% | 9.1% | 1.7% | 2.5% | 2.3% | 10.6% | 8.7% | 9.8% | 10.5% | 8.4% | 8.0% | 3.8% | 7.6% | | |
| Recurring profit | 55 | 151 | 178 | 185 | 37 | 61 | 70 | 272 | 264 | 298 | 370 | 306 | 320 | 159 | 410 | | |
| YoY | -29.5% | 77.6% | 242.3% | 85.0% | -32.7% | -59.6% | -60.7% | 47.0% | 613.5% | 388.5% | 428.6% | 12.5% | 21.2% | -46.6% | 10.7% | | |
| RPM | 4.8% | 11.0% | 11.8% | 12.4% | 2.7% | 3.0% | 3.1% | 10.8% | 9.9% | 9.5% | 10.7% | 8.6% | 8.1% | 3.7% | 7.6% | | |
| Net income | 37 | 93 | 91 | 86 | 9 | 18 | 28 | 153 | 163 | 177 | 227 | -199 | 193 | 68 | 256 | | |
| YoY | -26.0% | 72.2% | 160.0% | 53.6% | -75.7% | -80.6% | -69.2% | 77.9% | 1711.1% | 883.3% | 710.7% | - | 18.4% | -61.6% | 12.9% | | |
| Net margin | 3.2% | 6.8% | 6.0% | 5.8% | 0.7% | 0.9% | 1.2% | 6.1% | 6.1% | 5.6% | 6.6% | - | 4.9% | 1.6% | 4.8% | | |

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.

Sales (annual, quarterly)



Operating profit (annual, quarterly)



Source: Shared Research based on company data.
 Note: FY08/19 figures are company forecasts.

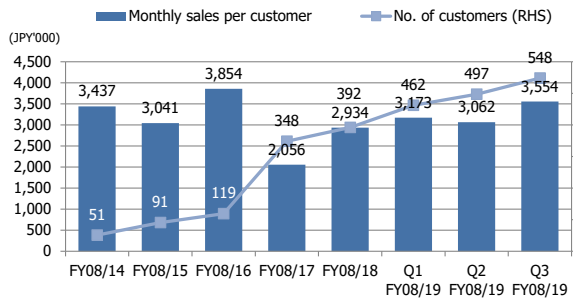
Source: Shared Research based on company data.
 Note: FY08/19 figures are company forecasts.

Monthly data, annual and quarterly sales

| Business KPIs (JPYmm) | FY08/12 | FY08/13 | FY08/14 | FY08/15 | FY08/16 | FY08/17 | FY08/18 | FY08/19 | | | |
|--|------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|---------------|
| | Act. | Act. | Act. | Act. | Act. | Act. | Act. | Q1 Act. | Q2 Act. | Q3 Act. | FY Est. |
| Sales | 799 | 1,311 | 2,150 | 3,288 | 5,511 | 8,174 | 12,792 | 3,954 | 4,317 | 5,378 | 19,500 |
| Monthly sales per customer | | | 3,437 | 3,041 | 3,854 | 2,056 | 2,934 | 3,173 | 3,062 | 3,554 | |
| Number of customers | | | 51 | 91 | 119 | 348 | 392 | 462 | 497 | 548 | |
| Monthly sales per customer x no. of customers x 12mo (x3mo) | | | 2,103 | 3,321 | 5,504 | 8,586 | 13,802 | 4,398 | 4,565 | 5,843 | |
| Billable cost per engineer | | | 450 | 502 | 550 | 585 | 635 | 638 | 659 | 635 | |
| Number of engineers | | | 393 | 549 | 830 | 1,152 | 1,681 | 2,054 | 2,186 | 2,779 | |
| Billable cost per engineer x No. of engineers x 12mo (x3mo) | | | 2,122 | 3,307 | 5,478 | 8,087 | 12,809 | 3,931 | 4,322 | 5,294 | |

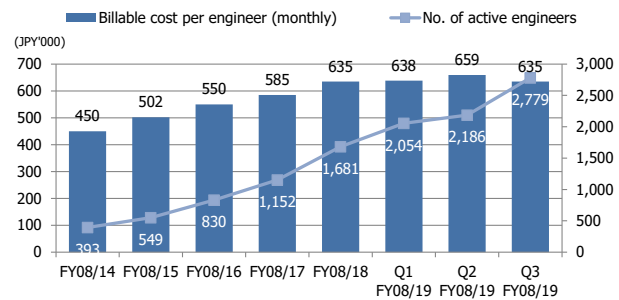
Source: Shared Research based on company data

Monthly sales per customer and number of customers



Source: Shared Research based on company data

Billable cost per engineer and number of engineers



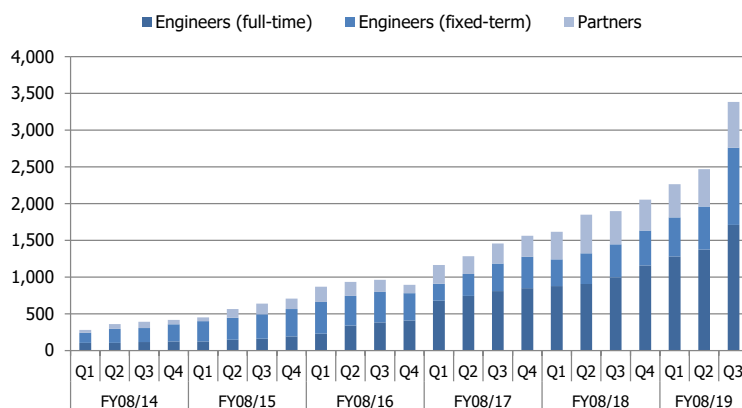
Source: Shared Research based on company data

Quarterly data and earnings

| Quarterly | Unit | FY08/16 | | | | FY08/17 | | | | FY08/18 | | | | FY08/19 | | |
|--|---------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Sales | JPYmm | 1,140 | 1,372 | 1,507 | 1,492 | 1,363 | 2,033 | 2,268 | 2,510 | 2,657 | 3,143 | 3,453 | 3,539 | 3,954 | 4,317 | 5,378 |
| No. of engineers (registration basis) | | 868 | 934 | 962 | 895 | 1,163 | 1,285 | 1,458 | 1,563 | 1,616 | 1,850 | 1,898 | 2,054 | 2,265 | 2,469 | 3,385 |
| Engineers (full-time) | | 228 | 341 | 383 | 409 | 678 | 743 | 808 | 849 | 876 | 905 | 995 | 1,158 | 1,280 | 1,375 | 1,711 |
| Engineers (fixed-term) | | 433 | 404 | 415 | 372 | 231 | 298 | 376 | 425 | 366 | 418 | 451 | 476 | 531 | 585 | 1,050 |
| Partners | | 207 | 189 | 164 | 114 | 254 | 244 | 274 | 289 | 374 | 527 | 452 | 420 | 454 | 509 | 624 |
| Billable cost per engineer (monthly) | JPY'000 | 515 | 539 | 589 | 551 | 592 | 576 | 590 | 583 | 598 | 646 | 653 | 638 | 638 | 659 | 635 |
| Billable cost per engineer x No. of engineers x 3mo | JPYmm | 1,217 | 1,457 | 1,675 | 1,535 | 1,828 | 2,115 | 2,428 | 2,642 | 2,852 | 3,359 | 3,671 | 3,782 | 4,133 | 4,680 | 5,576 |
| Monthly sales per customer | JPY'000 | | | | | 1,703 | 2,010 | 2,164 | 2,316 | 2,523 | 2,881 | 3,153 | 3,170 | 3,173 | 3,062 | 3,554 |
| Number of customers | | | | | | | | | | | | | | 462 | 497 | 548 |
| Monthly sales per customer x No. of customers x 3mo | JPYmm | | | | | | | | | | | | | 4,398 | 4,565 | 5,843 |
| Billable cost per engineer (monthly) | JPY'000 | 515 | 539 | 589 | 551 | 594 | 580 | 584 | 584 | 599 | 647 | 652 | 638 | 638 | 659 | 635 |
| No. of active engineers (average) | | | | | | | | | | | | | | 2,054 | 2,186 | 2,779 |
| Billable cost per engineer x No. of engineers x 3mo | JPYmm | | | | | | | | | | | | | 3,931 | 4,322 | 5,294 |

Source: Shared Research based on company data

Number of engineers (by employment type)



Source: Shared Research based on company data

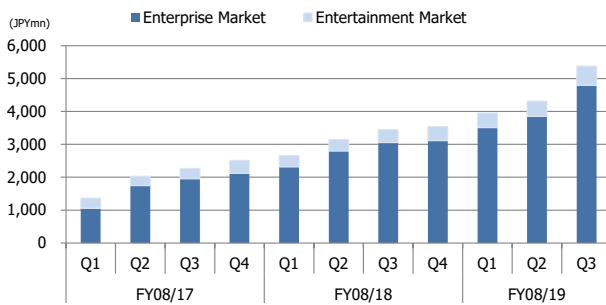
Segment information (quarterly earnings)

| Cumulative (JPYmm) | FY08/17 | | | | FY08/18 | | | | FY08/19 | | |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|---------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Sales | 1,363 | 3,396 | 5,664 | 8,174 | 2,657 | 5,800 | 9,253 | 12,792 | 3,954 | 8,271 | 13,649 |
| YoY | 19.6% | 35.2% | 40.9% | 48.3% | 94.9% | 70.8% | 63.4% | 56.5% | 48.8% | 42.6% | 47.5% |
| Enterprise Market | 1,059 | 2,803 | 4,752 | 6,869 | 2,314 | 5,112 | 8,164 | 11,276 | 3,510 | 7,364 | 12,155 |
| YoY | - | - | - | - | 118.5% | 82.4% | 71.8% | 64.2% | 51.7% | 44.0% | 48.9% |
| % of sales | 77.7% | 82.5% | 83.9% | 84.0% | 87.1% | 88.1% | 88.2% | 88.1% | 88.8% | 89.0% | 89.1% |
| Entertainment Market | 304 | 592 | 911 | 1,306 | 343 | 688 | 1,088 | 1,516 | 444 | 908 | 1,494 |
| YoY | - | - | - | - | 12.8% | 16.2% | 19.4% | 16.1% | 29.4% | 32.0% | 37.3% |
| % of sales | 22.3% | 17.4% | 16.1% | 16.0% | 12.9% | 11.9% | 11.8% | 11.9% | 11.2% | 11.0% | 10.9% |
| Operating profit | 23 | 74 | 126 | 391 | 232 | 541 | 904 | 1,200 | 318 | 484 | 894 |
| YoY | -58.2% | -63.4% | -66.9% | -24.4% | 908.7% | 631.1% | 617.5% | 206.9% | 37.1% | -10.5% | -1.1% |
| OPM | 1.7% | 2.2% | 2.2% | 4.8% | 8.7% | 9.3% | 9.8% | 9.4% | 8.0% | 5.9% | 6.6% |
| Enterprise Market | 223 | 535 | 898 | 1,374 | 510 | 1,151 | 1,904 | 2,610 | 873 | 1,803 | 2,909 |
| YoY | - | - | - | - | 128.7% | 115.1% | 112.0% | 89.9% | 71.2% | 56.7% | 52.8% |
| % of OP | 71.9% | 77.1% | 79.2% | 80.3% | 83.9% | 86.2% | 86.9% | 86.7% | 90.1% | 89.9% | 90.4% |
| Segment profit margin | 21.1% | 19.1% | 18.9% | 20.0% | 22.0% | 22.5% | 23.3% | 23.2% | 24.9% | 24.5% | 23.9% |
| Entertainment Market | 86 | 159 | 236 | 337 | 98 | 184 | 286 | 400 | 96 | 203 | 310 |
| YoY | - | - | - | - | 14.0% | 15.7% | 21.2% | 18.8% | -2.0% | 10.1% | 8.3% |
| % of OP | 27.7% | 22.9% | 20.8% | 19.7% | 16.1% | 13.8% | 13.1% | 13.3% | 9.9% | 10.1% | 9.6% |
| Segment profit margin | 28.3% | 26.9% | 25.9% | 25.8% | 28.6% | 26.7% | 26.3% | 26.4% | 21.6% | 22.3% | 20.7% |
| Adjustments | -287 | -620 | -1,008 | -1,320 | -376 | -795 | -1,286 | -1,810 | -651 | -1,522 | -2,325 |
| Quarterly (JPYmm) | FY08/17 | | | | FY08/18 | | | | FY08/19 | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Sales | 1,363 | 2,033 | 2,268 | 2,510 | 2,657 | 3,143 | 3,453 | 3,539 | 3,954 | 4,317 | 5,378 |
| YoY | 19.6% | 48.2% | 50.5% | 68.2% | 94.9% | 54.6% | 52.2% | 41.0% | 48.8% | 37.4% | 55.8% |
| Enterprise Market | 1,059 | 1,744 | 1,949 | 2,117 | 2,314 | 2,798 | 3,052 | 3,112 | 3,510 | 3,854 | 4,792 |
| YoY | - | - | - | - | 118.5% | 60.4% | 56.6% | 47.0% | 51.7% | 37.7% | 57.0% |
| % of sales | 77.7% | 85.8% | 85.9% | 84.3% | 87.1% | 89.0% | 88.4% | 87.9% | 88.8% | 89.3% | 89.1% |
| Entertainment Market | 304 | 288 | 319 | 395 | 343 | 345 | 400 | 428 | 444 | 464 | 585 |
| YoY | - | - | - | - | 12.8% | 19.8% | 25.4% | 8.5% | 29.4% | 34.6% | 46.4% |
| % of sales | 22.3% | 14.2% | 14.1% | 15.7% | 12.9% | 11.0% | 11.6% | 12.1% | 11.2% | 10.8% | 10.9% |
| Operating profit | 23 | 51 | 52 | 265 | 232 | 309 | 363 | 296 | 318 | 166 | 410 |
| YoY | -58.2% | -65.3% | -70.9% | 94.9% | 908.7% | 505.9% | 598.1% | 11.7% | 37.1% | -46.3% | 13.0% |
| OPM | 1.7% | 2.5% | 2.3% | 10.6% | 8.7% | 9.8% | 10.5% | 8.4% | 8.0% | 3.8% | 7.6% |
| Enterprise Market | 223 | 312 | 363 | 476 | 510 | 641 | 753 | 706 | 873 | 930 | 1,106 |
| YoY | - | - | - | - | 128.7% | 105.4% | 107.4% | 48.3% | 71.2% | 45.1% | 46.9% |
| % of OP | 71.9% | 81.3% | 82.5% | 82.6% | 83.9% | 88.0% | 88.2% | 86.2% | 90.1% | 89.7% | 91.2% |
| Segment profit margin | 21.1% | 17.9% | 18.6% | 22.5% | 22.0% | 22.9% | 24.7% | 22.7% | 24.9% | 24.1% | 23.1% |
| Entertainment Market | 86 | 73 | 77 | 101 | 98 | 86 | 102 | 114 | 96 | 107 | 107 |
| YoY | - | - | - | - | 14.0% | 17.8% | 32.5% | 13.2% | -2.0% | 23.9% | 4.9% |
| % of OP | 27.7% | 19.0% | 17.5% | 17.5% | 16.1% | 11.8% | 11.9% | 14.0% | 9.9% | 10.3% | 8.8% |
| Segment profit margin | 28.3% | 25.3% | 24.1% | 25.6% | 28.6% | 24.9% | 25.5% | 26.7% | 21.6% | 23.0% | 18.3% |
| Adjustments | -287 | -333 | -388 | -312 | -376 | -419 | -491 | -524 | -651 | -871 | -803 |
| Gross profit | 399 | 538 | 603 | 739 | 779 | 918 | 1,087 | 1,107 | 1,269 | 1,417 | 1,646 |
| YoY | 17.0% | 28.1% | 22.8% | 66.8% | 95.2% | 70.6% | 80.3% | 49.8% | 62.9% | 54.4% | 51.4% |
| GPM | 29.3% | 26.5% | 26.6% | 29.4% | 29.3% | 29.2% | 31.5% | 31.3% | 32.1% | 32.8% | 30.6% |
| Enterprise Market | 302 | 452 | 506 | 616 | 675 | 825 | 978 | 987 | 1,164 | 1,302 | 1,507 |
| YoY | - | - | - | - | 123.5% | 82.5% | 93.3% | 60.2% | 72.4% | 57.8% | 54.1% |
| % of gross profit | 75.7% | 84.0% | 83.9% | 83.4% | 86.6% | 89.9% | 90.0% | 89.2% | 91.7% | 91.9% | 91.6% |
| GPM | 28.5% | 25.9% | 26.0% | 29.1% | 29.2% | 29.5% | 32.0% | 31.7% | 33.2% | 33.8% | 31.4% |
| Entertainment Market | 97 | 85 | 96 | 122 | 104 | 92 | 108 | 119 | 105 | 114 | 137 |
| YoY | - | - | - | - | 7.2% | 8.2% | 12.5% | -2.5% | 1.0% | 23.9% | 26.9% |
| % of gross profit | 24.3% | 16.0% | 16.1% | 16.6% | 13.4% | 10.1% | 10.0% | 10.8% | 8.3% | 8.1% | 8.4% |
| GPM | 31.9% | 29.5% | 30.1% | 30.9% | 30.3% | 26.7% | 27.0% | 27.8% | 23.6% | 24.6% | 23.4% |
| Testing | | | | | | | | | | | |
| Sales | | | | | | | | | 2,795 | 2,992 | 3,550 |
| Gross profit | | | | | | | | | 861 | 945 | 1,068 |
| % of sales | | | | | | | | | 70.7% | 69.3% | 66.0% |
| % of gross profit | | | | | | | | | 30.8% | 31.6% | 30.1% |
| High value-added service | | | | | | | | | | | |
| Sales | | | | | | | | | 297 | 414 | 425 |
| Gross profit | | | | | | | | | 187 | 251 | 256 |
| % of sales | | | | | | | | | 7.5% | 9.6% | 7.9% |
| % of gross profit | | | | | | | | | 63.2% | 60.5% | 60.3% |
| Development | | | | | | | | | | | |
| Sales | | | | | | | | | 862 | 915 | 1,404 |
| Gross profit | | | | | | | | | 221 | 221 | 321 |
| % of sales | | | | | | | | | 21.8% | 21.2% | 26.1% |
| % of gross profit | | | | | | | | | 25.6% | 24.2% | 22.9% |

Source: Shared Research based on company data

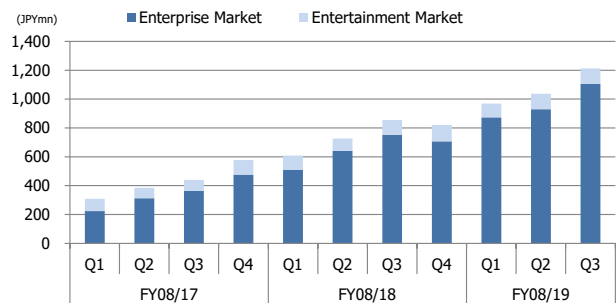
Note: Figures may differ from company materials due to differences in rounding methods.

Sales by segment



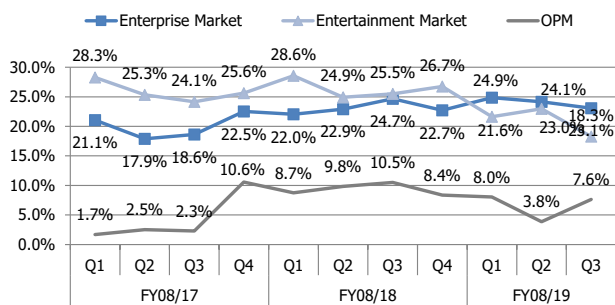
Source: Shared Research based on company data

Operating profit by segment



Source: Shared Research based on company data

OPM by segment



Source: Shared Research based on company data

Cumulative Q3 FY08/19 results

Overview

- ▷ Sales: JPY13.6bn (+47.5% YoY)
- ▷ Operating profit: JPY894mn (-1.1% YoY)
- ▷ Net income*: JPY517mn (-8.8% YoY)

*Net income attributable to parent company shareholders

The sharp growth in sales reflected results of aggressive investment in personnel since FY08/18, as well as the acquisition of new customers and expansion in orders in target industries. The decline in profit, on the other hand, was attributable to strategic investments for long-term growth in the form of TV commercials and transit advertising, which the company tested as a way to strengthen its recruiting capabilities.

Business indicators

SHIFT regards the factors underpinning sales and the gross profit margin as key performance indicators (KPIs). It believes controlling these will eventually reveal other concrete targets that can drive growth. The company sees sales as determined by monthly sales per customer and number of customers on the demand side, and by billable cost per engineer and number of engineers on the supply side.

In cumulative Q3 FY08/19, the company had monthly sales per customer of JPY3.5mn and 548 customers. Multiplying the demand-side factors (for three months) yields sales of JPY5.8bn, on par with the JPY5.4bn in sales posted by the company. Meanwhile, the billable cost per engineer during the period was JPY635,000 and the number of active engineers 2,779. Multiplying the supply-side factors (for three months) results in sales of JPY5.3bn, which is similarly in line with recorded sales.

SHIFT employs engineers in three contract categories: full-time, fixed-term, and partner. Its number of engineers represents an average based on active engineers. The billable cost per engineer varies broadly by qualifications and experience, ranging from several hundred thousand yen to over JPY1mn per month, and is rising QoQ in tandem with sharp growth in the number of engineers.

The billable cost per engineer varies by contract, and is determined by multiplying engineer (or consultant) time by a specified rate. This essentially means that every order generates a profit. When concluding agreements with customers, the company chooses the most efficient contract type for the project at hand while taking into account the scope of quality assurance.

In cumulative Q3 FY08/19, the gross profit margin was 30.1% for testing projects (which accounted for 66.0% of sales), 60.3% for high added-value services (7.9%), and 26.1% for development projects (26.1%). The gross profit margin was down 1.5pp QoQ for testing projects, and down 1.3pp QoQ for development projects, mainly due to seasonal factors in April and changes in the sales mix stemming from M&A activity.

Overview by segment

Enterprise Market

In the Enterprise Market, SHIFT provides a full range of software quality assurance services for business and information systems of companies operating in the finance, distribution, manufacturing, telecommunications, and online services sectors, which support social infrastructure. The company has focused on acquiring new customers in the finance and distribution industries—two industries with a large budget for IT investment—since FY08/18, and these efforts have begun to produce results in cumulative Q3 FY08/19, as the company engaged in projects aimed at building long-term relationships and gradually increased sales to new customers. As a result, cumulative Q3 FY08/19 sales in the Enterprise Market came to JPY12.2bn (+48.9% YoY) and operating profit to JPY2.9bn (+52.8% YoY).

Entertainment Market

In the Entertainment Market, SHIFT provides customers that deliver mobile, social network, and consumer games to consumers with services that add value to their businesses, including outsourced quality control process and debugging services, as well as outsourced customer support services. In cumulative Q3 FY08/19, the company's efforts to differentiate itself from competitors paid off in the form of increased industry recognition and higher sales to existing customers, driving expansion in its earnings base. As a result, cumulative Q3 FY08/19 sales came to JPY1.5bn (+37.3% YoY) and operating profit to JPY310mn (+8.3% YoY).

Other topics

Increase in goodwill

The acquisition of System I Co., Ltd., a system consulting company, increased goodwill by JPY428mn in cumulative Q3 FY08/19.

Increase in capital and capital reserves due to exercise of share acquisition rights

Part of the eighth share acquisition rights (with provisions to revise exercise price), which were issued through third-party allotment on March 22, 2019, were exercised on June 25, 2019. Total exercise price was roughly JPY1.1bn, increasing capital and capital reserves by about JPY550mn each.

This note is the most recent addition to the [full report](#).

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