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On **July 9, 2020**, SHIFT Inc. announced earnings results for Q3 FY08/20.

Cumulative (JPYmn)	FY08/18				FY08/19				FY08/20			FY08/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of Est.	FY Est.
Sales	2,657	5,800	9,253	12,792	3,955	8,271	13,649	19,532	6,099	12,831	20,720	74.0%	28,000
YoY	94.9%	70.8%	63.4%	56.5%	48.8%	42.6%	47.5%	52.7%	54.2%	55.1%	51.8%		43.4%
Gross profit	779	1,697	2,784	3,891	1,270	2,686	4,332	6,216	1,954	4,202	6,561		
YoY	95.2%	81.1%	80.8%	70.7%	63.0%	58.3%	55.6%	59.8%	53.9%	56.5%	51.5%		
GPM	29.3%	29.3%	30.1%	30.4%	32.1%	32.5%	31.7%	31.8%	32.0%	32.8%	31.7%		
SG&A expenses	546	1,156	1,880	2,690	951	2,202	3,484	4,675	1,358	2,960	4,931		
YoY	45.2%	34.1%	33.1%	42.6%	74.1%	90.5%	85.3%	73.8%	42.9%	34.4%	41.5%		
SG&A-to-sales ratio	20.5%	19.9%	20.3%	21.0%	24.0%	26.6%	25.5%	23.9%	22.3%	23.1%	23.8%		
Operating profit	232	541	904	1,200	319	483	848	1,541	596	1,242	1,630	67.9%	2,400
YoY	908.7%	631.1%	617.5%	206.9%	37.5%	-10.7%	-6.2%	28.4%	86.8%	157.2%	92.3%		55.8%
OPM	8.7%	9.3%	9.8%	9.4%	8.1%	5.8%	6.2%	7.9%	9.8%	9.7%	7.9%		8.6%
Recurring profit	264	562	932	1,238	320	479	842	1,545	609	1,272	1,758	73.3%	2,400
YoY	613.5%	473.5%	454.8%	181.4%	21.2%	-14.8%	-9.7%	24.8%	90.4%	165.6%	108.9%		55.4%
RPM	9.9%	9.7%	10.1%	9.7%	8.1%	5.8%	6.2%	7.9%	10.0%	9.9%	8.5%		8.6%
Net income	163	340	567	368	194	261	488	970	383	754	1,021	70.4%	1,450
YoY	1711.1%	1159.3%	930.9%	76.9%	18.7%	-23.2%	-13.9%	163.7%	97.9%	188.9%	109.1%		49.4%
Net margin	6.1%	5.9%	6.1%	2.9%	4.9%	3.2%	3.6%	5.0%	6.3%	5.9%	4.9%		5.2%

  

Quarterly (JPYmn)	FY08/18				FY08/19				FY08/20		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	2,657	3,143	3,453	3,539	3,955	4,316	5,378	5,883	6,099	6,732	7,889
YoY	94.9%	54.6%	52.2%	41.0%	48.8%	37.3%	55.8%	66.2%	54.2%	56.0%	46.7%
Gross profit	779	918	1,087	1,107	1,270	1,416	1,646	1,884	1,954	2,249	2,359
YoY	95.2%	70.6%	80.3%	49.8%	63.0%	54.3%	51.4%	70.2%	53.9%	58.8%	43.3%
GPM	29.3%	29.2%	31.5%	31.3%	32.1%	32.8%	30.6%	32.0%	32.0%	33.4%	29.9%
SG&A expenses	546	610	724	810	951	1,251	1,282	1,191	1,358	1,602	1,971
YoY	45.2%	25.5%	31.4%	70.9%	74.1%	105.1%	77.1%	47.1%	42.9%	28.0%	53.8%
SG&A-to-sales ratio	20.5%	19.4%	21.0%	22.9%	24.0%	29.0%	23.8%	20.3%	22.3%	23.8%	25.0%
Operating profit	232	309	363	296	319	164	365	693	596	647	388
YoY	908.7%	505.9%	598.1%	11.7%	37.5%	-46.9%	0.5%	134.1%	86.8%	294.1%	6.3%
OPM	8.7%	9.8%	10.5%	8.4%	8.1%	3.8%	6.8%	11.8%	9.8%	9.6%	4.9%
Recurring profit	264	298	370	306	320	159	363	703	609	663	486
YoY	613.5%	388.5%	428.6%	12.5%	21.2%	-46.6%	-1.9%	129.7%	90.4%	317.0%	34.0%
RPM	9.9%	9.5%	10.7%	8.6%	8.1%	3.7%	6.7%	11.9%	10.0%	9.8%	6.2%
Net income	163	177	227	-199	194	67	227	482	383	371	267
YoY	1711.1%	883.3%	710.7%	-	18.7%	-61.9%	0.1%	-	97.9%	450.1%	17.4%
Net margin	6.1%	5.6%	6.6%	-	4.9%	1.6%	4.2%	8.2%	6.3%	5.5%	3.4%

Source: Shared Research based on company data

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

#### Monthly data, annual and quarterly sales

Monthly data, annual and quarterly sales (JPYmn)	FY08/13	FY08/14	FY08/15	FY08/16	FY08/17	FY08/18	FY08/19	FY08/20	FY08/20	FY08/20
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Q1	Q2	Q3
<b>Annual sales (3mo for Q)</b>	<b>1,311</b>	<b>2,150</b>	<b>3,288</b>	<b>5,511</b>	<b>8,174</b>	<b>12,792</b>	<b>19,532</b>	<b>6,099</b>	<b>6,732</b>	<b>7,889</b>
Monthly sales per customer			3,041	3,854	2,056	2,934	3,552	3,548	3,548	3,725
Number of customers			91	119	348	392	535	622	661	704
<b>Monthly sales per customer x no. of customers x 12mo (x3mo)</b>			<b>3,321</b>	<b>5,504</b>	<b>8,586</b>	<b>13,802</b>	<b>22,804</b>	<b>6,621</b>	<b>7,036</b>	<b>7,867</b>
Billable cost per engineer			502	550	585	635	647	665	690	707
Number of engineers			549	830	1,152	1,681	2,490	3,051	3,205	3,453
<b>Billable cost per engineer x No. of engineers x 12mo (x3mo)</b>			<b>3,307</b>	<b>5,478</b>	<b>8,087</b>	<b>12,809</b>	<b>19,332</b>	<b>6,087</b>	<b>6,634</b>	<b>7,324</b>

Source: Shared Research based on company data

## Quarterly data and earnings

Quarterly	(unit)	FY08/18				FY08/19				FY08/20		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Sales</b>	<b>(JPYmn)</b>	<b>2,657</b>	<b>3,143</b>	<b>3,453</b>	<b>3,539</b>	<b>3,954</b>	<b>4,317</b>	<b>5,378</b>	<b>5,883</b>	<b>6,099</b>	<b>6,732</b>	<b>7,889</b>
No. of engineers (registration basis)		1,616	1,850	1,898	2,054	2,265	2,469	3,385	3,537	3,682	3,924	4,284
Engineers (full-time)		876	905	995	1,158	1,280	1,375	1,711	1,836	1,958	2,135	2,437
Engineers (fixed-term)		366	418	451	476	531	585	1,050	1,137	1,223	1,279	1,318
Partners		374	527	452	420	454	509	624	564	501	510	529
Billable cost per engineer (monthly)	(JPY'000)	598	646	653	638	638	659	635	659	665	690	707
<b>Billable cost per engineer x No. of engineers x 3mo</b>	<b>(JPYmn)</b>	<b>2,852</b>	<b>3,359</b>	<b>3,671</b>	<b>3,782</b>	<b>4,133</b>	<b>4,680</b>	<b>5,576</b>	<b>6,842</b>	<b>7,201</b>	<b>7,872</b>	<b>8,705</b>
Monthly sales per customer	(JPY'000)	2,523	2,881	3,153	3,170	3,173	3,062	3,554	3,552	3,548	3,548	3,725
Number of customers						462	497	548	612	622	661	704
<b>Monthly sales per customer x No. of customers x 3mo</b>	<b>(JPYmn)</b>					<b>4,398</b>	<b>4,565</b>	<b>5,843</b>	<b>6,521</b>	<b>6,621</b>	<b>7,036</b>	<b>7,867</b>
Billable cost per engineer (monthly)	(JPY'000)	599	647	652	638	638	659	635	659	665	690	707
No. of active engineers (average)						2,054	2,186	2,779	2,933	3,051	3,205	3,453
<b>Billable cost per engineer x No. of engineers x 3mo</b>	<b>(JPYmn)</b>					<b>3,931</b>	<b>4,322</b>	<b>5,294</b>	<b>5,799</b>	<b>6,087</b>	<b>6,634</b>	<b>7,324</b>

Source: Shared Research based on company data

## Segment information (quarterly earnings)

Cumulative (JPYmn)	FY08/18				FY08/19				FY08/20		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Sales</b>	<b>2,657</b>	<b>5,800</b>	<b>9,253</b>	<b>12,792</b>	<b>3,954</b>	<b>8,271</b>	<b>13,649</b>	<b>19,532</b>	<b>6,099</b>	<b>12,831</b>	<b>20,720</b>
YoY	94.9%	70.8%	63.4%	56.5%	48.8%	42.6%	47.5%	52.7%	54.2%	55.1%	51.8%
Enterprise Market	2,314	5,112	8,164	11,276	3,510	7,364	12,155	17,379	5,446	11,565	18,712
YoY	118.5%	82.4%	71.8%	64.2%	51.7%	44.0%	48.9%	54.1%	55.1%	57.1%	53.9%
% of sales	87.1%	88.1%	88.2%	88.1%	88.8%	89.0%	89.1%	89.0%	89.3%	90.1%	90.3%
Entertainment Market	343	688	1,088	1,516	444	908	1,494	2,153	653	1,265	2,008
YoY	12.8%	16.2%	19.4%	16.1%	29.4%	32.0%	37.3%	42.0%	47.1%	39.3%	34.4%
% of sales	12.9%	11.9%	11.8%	11.9%	11.2%	11.0%	10.9%	11.0%	10.7%	9.9%	9.7%
<b>Operating profit</b>	<b>232</b>	<b>541</b>	<b>904</b>	<b>1,200</b>	<b>318</b>	<b>484</b>	<b>848</b>	<b>1,541</b>	<b>596</b>	<b>1,242</b>	<b>1,630</b>
YoY	908.7%	631.1%	617.5%	206.9%	37.1%	-10.5%	-6.2%	28.4%	87.3%	156.7%	92.3%
OPM	8.7%	9.3%	9.8%	9.4%	8.0%	5.9%	6.2%	7.9%	9.8%	9.7%	7.9%
Enterprise Market	510	1,151	1,904	2,610	873	1,803	2,909	4,235	1,050	2,275	3,244
YoY	128.7%	115.1%	112.0%	89.9%	71.2%	56.7%	52.8%	62.3%	20.3%	26.2%	11.5%
% of OP	83.9%	86.2%	86.9%	86.7%	90.1%	89.9%	90.4%	90.1%	89.6%	91.0%	90.7%
Segment profit margin	22.0%	22.5%	23.3%	23.2%	24.9%	24.5%	23.9%	24.4%	19.3%	19.7%	17.3%
Entertainment Market	98	184	286	400	96	203	310	466	122	226	334
YoY	14.0%	15.7%	21.2%	18.8%	-2.0%	10.1%	8.3%	16.3%	26.8%	11.7%	7.9%
% of OP	16.1%	13.8%	13.1%	13.3%	9.9%	10.1%	9.6%	9.9%	10.4%	9.0%	9.3%
Segment profit margin	28.6%	26.7%	26.3%	26.4%	21.6%	22.3%	20.7%	21.6%	18.6%	17.9%	16.6%
Adjustments	-376	-795	-1,286	-1,810	-651	-1,522	-2,371	-3,161	-576	-1,260	-1,948
Quarterly (JPYmn)	FY08/18				FY08/19				FY08/20		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Sales</b>	<b>2,657</b>	<b>3,143</b>	<b>3,453</b>	<b>3,539</b>	<b>3,954</b>	<b>4,317</b>	<b>5,378</b>	<b>5,883</b>	<b>6,099</b>	<b>6,732</b>	<b>7,889</b>
YoY	94.9%	54.6%	52.2%	41.0%	48.8%	37.4%	55.8%	66.2%	54.2%	55.9%	46.7%
Enterprise Market	2,314	2,798	3,052	3,112	3,510	3,854	4,792	5,223	5,446	6,120	7,146
YoY	118.5%	60.4%	56.6%	47.0%	51.7%	37.7%	57.0%	67.8%	55.1%	58.8%	49.1%
% of sales	87.1%	89.0%	88.4%	87.9%	88.8%	89.3%	89.1%	88.8%	89.3%	90.9%	90.6%
Entertainment Market	343	345	400	428	444	464	585	660	653	612	743
YoY	12.8%	19.8%	25.4%	8.5%	29.4%	34.6%	46.4%	54.1%	47.1%	31.8%	26.9%
% of sales	12.9%	11.0%	11.6%	12.1%	11.2%	10.8%	10.9%	11.2%	10.7%	9.1%	9.4%
<b>Operating profit</b>	<b>232</b>	<b>309</b>	<b>363</b>	<b>296</b>	<b>318</b>	<b>166</b>	<b>364</b>	<b>693</b>	<b>596</b>	<b>647</b>	<b>388</b>
YoY	908.7%	505.9%	598.1%	11.7%	37.1%	-46.3%	0.2%	134.1%	87.3%	289.7%	6.6%
OPM	8.7%	9.8%	10.5%	8.4%	8.0%	3.8%	6.8%	11.8%	9.8%	9.6%	4.9%
Enterprise Market	510	641	753	706	873	930	1,106	1,326	1,050	1,226	968
YoY	128.7%	105.4%	107.4%	48.3%	71.2%	45.1%	46.9%	87.7%	20.3%	31.8%	-12.5%
% of OP	83.9%	88.0%	88.2%	86.2%	90.1%	89.7%	91.2%	89.5%	89.6%	92.1%	90.0%
Segment profit margin	22.0%	22.9%	24.7%	22.7%	24.9%	24.1%	23.1%	25.4%	19.3%	20.0%	13.5%
Entertainment Market	98	86	102	114	96	107	107	156	122	105	108
YoY	14.0%	17.8%	32.5%	13.2%	-2.0%	23.9%	4.9%	36.5%	26.8%	-1.8%	0.8%
% of OP	16.1%	11.8%	11.9%	14.0%	9.9%	10.3%	8.8%	10.5%	10.4%	7.9%	10.0%
Segment profit margin	28.6%	24.9%	25.5%	26.7%	21.6%	23.0%	18.3%	23.7%	18.6%	17.1%	14.5%
Adjustments	-376	-419	-491	-524	-651	-871	-849	-789	-576	-683	-689

Source: Shared Research based on company data

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

## Cumulative Q3 FY08/20 results

### Overview

- ▷ Sales: JPY20.7bn (+51.8% YoY)
- ▷ Operating profit: JPY1.6bn (+92.3% YoY)
- ▷ Net income\*: JPY1.02bn (+109.1% YoY)  
\*Net income attributable to owners of the parent
- ▷ Versus full-year FY08/20 forecasts, sales progressed 74.0%, operating profit 67.9%, recurring profit 73.3%, and net income 70.4%. Progress versus the sales target surpassed that in the first nine months of FY08/19 (69.9%) and FY08/18 (72.3%).
- ▷ Impact of the spread of the novel coronavirus disease (COVID-19): Although factors such as project timing have been affected for some customers, the company expects that the overall impact on its earnings will be quite limited. In Q3, the billable cost per engineer temporarily fell to JPY713,000 due to a 2% YoY decrease in the parent company utilization rate. The company says that the billable cost per engineer would have been JPY730,000 without the impact of this decline in utilization rate. Gross profit margin in Q3 was 29.9% due to factors such as the lower utilization rate on a parent basis. The operating profit margin in Q3 was 4.9%, in part due to the decline in GPM.
- ▷ Full-year FY08/20 forecast: No changes from the forecast announced on October 10, 2019. Although the impact of the coronavirus situation is deemed to be limited at the time of the announcement of Q3 results, the company will disclose information if its performance or financial position changes, depending on factors such as the timing of recovery from the crisis and other circumstances.
- ▷ System I Co., Ltd. was acquired on March 5, 2019 and accounting treatment for the business combination was provisional in Q3 FY08/19. As the accounting treatment was finalized at the end of FY08/19, figures in text reflect the accounting adjustments for the purposes of comparison and analysis with cumulative Q3 FY08/19.

### 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 Q3 FY08/20, the company had monthly sales per customer of JPY3.7mn and 704 customers. Multiplying the demand-side factors (for three months) yields sales of JPY7.9bn, on par with the JPY7.9bn in sales posted by the company. Meanwhile, the billable cost per engineer during the period was JPY707,000 and the number of active engineers 3,453. Multiplying the supply-side factors (for three months) results in sales of JPY7.3bn, 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 (consolidated basis) 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.

In cumulative Q3 FY08/20, the gross profit margin was 31.5% for testing projects (which accounted for 64.8% of sales), 64.5% for high added-value services (8.2%), and 22.0% for development projects (26.9%). Compared to cumulative Q3 FY08/19, GPM for testing projects and high value-added services improved. Overall gross profit margin was flat YoY, reflecting a larger proportion of development projects in the sales mix, which have a relatively low gross profit margin.

## 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. In FY08/19, the company decided to focus on areas with particularly large IT investment such as the telecommunications and insurance industries. These efforts led to gradual growth in sales from new customers in cumulative Q3 FY08/20 as the company participated in projects focused on building long-term relationships. As a result, cumulative Q3 FY08/20 sales in the Enterprise Market came to JPY18.7bn (+53.9% YoY) and operating profit to JPY3.2bn (+11.5% 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 FY08/20, the company worked to expand its earnings base by raising its profile in the industry and increasing sales from existing customers through differentiation from competitors. As a result, cumulative Q3 FY08/20 sales came to JPY2.0bn (+34.4% YoY) and operating profit to JPY334mn (+7.9% YoY).

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

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