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On October 8, 2020, SHIFT Inc. announced earnings results for full-year FY08/20.

Cumulative (JPYmm)	FY08/18				FY08/19				FY08/20				FY08/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	2,657	5,800	9,253	12,792	3,955	8,272	13,649	19,532	6,099	12,831	20,720	28,712	102.5%	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%	47.0%		43.4%
Gross profit	779	1,697	2,784	3,891	1,270	2,687	4,332	6,216	1,954	4,202	6,561	8,950		
YoY	95.2%	81.1%	80.8%	70.7%	63.0%	58.3%	55.6%	59.8%	53.9%	56.4%	51.5%	44.0%		
GPM	29.3%	29.3%	30.1%	30.4%	32.1%	32.5%	31.7%	31.8%	32.0%	32.8%	31.7%	31.2%		
SG&A expenses	546	1,156	1,880	2,690	951	2,203	3,484	4,675	1,358	2,960	4,931	6,597		
YoY	45.2%	34.1%	33.1%	42.6%	74.1%	90.5%	85.3%	73.8%	42.9%	34.4%	41.5%	41.1%		
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%	23.0%		
Operating profit	232	541	904	1,200	319	484	848	1,541	596	1,242	1,630	2,353	98.1%	2,400
YoY	908.7%	631.1%	617.5%	206.9%	37.5%	-10.5%	-6.2%	28.4%	86.8%	156.7%	92.3%	52.8%		55.8%
OPM	8.7%	9.3%	9.8%	9.4%	8.1%	5.9%	6.2%	7.9%	9.8%	9.7%	7.9%	8.2%		8.6%
Recurring profit	264	562	932	1,238	320	480	842	1,545	609	1,272	1,758	2,535	105.6%	2,400
YoY	613.5%	473.5%	454.8%	181.4%	21.2%	-14.6%	-9.7%	24.8%	90.3%	165.2%	108.9%	64.1%		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%	8.8%		8.6%
Net income	163	340	567	368	194	262	488	970	383	754	1,021	1,649	113.7%	1,450
YoY	1711.1%	1159.3%	930.9%	76.9%	18.7%	-23.0%	-13.9%	163.7%	97.9%	188.1%	109.1%	69.9%		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%	5.7%		5.2%

Quarterly (JPYmm)	FY08/18				FY08/19				FY08/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	2,657	3,143	3,453	3,539	3,955	4,317	5,377	5,883	6,099	6,732	7,889	7,992
YoY	94.9%	54.6%	52.2%	41.0%	48.8%	37.4%	55.7%	66.2%	54.2%	55.9%	46.7%	35.9%
Gross profit	779	918	1,087	1,107	1,270	1,417	1,645	1,884	1,954	2,249	2,359	2,389
YoY	95.2%	70.6%	80.3%	49.8%	63.0%	54.4%	51.3%	70.2%	53.9%	58.7%	43.4%	26.8%
GPM	29.3%	29.2%	31.5%	31.3%	32.1%	32.8%	30.6%	32.0%	32.0%	33.4%	29.9%	29.9%
SG&A expenses	546	610	724	810	951	1,252	1,281	1,191	1,358	1,602	1,971	1,665
YoY	45.2%	25.5%	31.4%	70.9%	74.1%	105.2%	77.0%	47.1%	42.9%	27.9%	53.9%	39.8%
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%	20.8%
Operating profit	232	309	363	296	319	165	364	693	596	647	388	723
YoY	908.7%	505.9%	598.1%	11.7%	37.5%	-46.6%	0.2%	134.1%	86.8%	291.9%	6.6%	4.4%
OPM	8.7%	9.8%	10.5%	8.4%	8.1%	3.8%	6.8%	11.8%	9.8%	9.6%	4.9%	9.1%
Recurring profit	264	298	370	306	320	160	362	703	609	663	486	777
YoY	613.5%	388.5%	428.6%	12.5%	21.2%	-46.4%	-2.1%	129.7%	90.3%	315.2%	34.2%	10.5%
RPM	9.9%	9.5%	10.7%	8.6%	8.1%	3.7%	6.7%	11.9%	10.0%	9.8%	6.2%	9.7%
Net income	163	177	227	-199	194	68	227	482	383	371	267	628
YoY	1711.1%	883.3%	710.7%	-	18.7%	-61.5%	-0.2%	-	97.9%	443.9%	17.8%	30.2%
Net margin	6.1%	5.6%	6.6%	-	4.9%	1.6%	4.2%	8.2%	6.3%	5.5%	3.4%	7.9%

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 (JPYmm)	FY08/13	FY08/14	FY08/15	FY08/16	FY08/17	FY08/18	FY08/19	FY08/20	FY08/20	FY08/20	FY08/20
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Q1	Q2	Q3	Q4
Annual sales (3mo for quarters)	1,311	2,150	3,288	5,511	8,174	12,792	19,532	6,099	6,732	7,889	7,992
Monthly sales per customer			3,041	3,854	2,056	2,934	3,552	3,548	3,548	3,725	3,553
Number of customers			91	119	348	392	535	622	661	704	811
Monthly sales per customer x no. of customers x 12mo (x3mo)			3,321	5,504	8,586	13,802	22,804	6,621	7,036	7,867	8,644
Billable cost per engineer			502	550	585	635	647	665	690	707	710
Number of engineers			549	830	1,152	1,681	2,490	3,051	3,205	3,453	3,754
Billable cost per engineer x No. of engineers x 12mo (x3mo)			3,307	5,478	8,087	12,809	19,332	6,087	6,634	7,324	7,996

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	Q4
Sales	(JPYmm)	2,657	3,143	3,453	3,539	3,954	4,317	5,378	5,883	6,099	6,732	7,889	7,992
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	4,322
Engineers (full-time)		876	905	995	1,158	1,280	1,375	1,711	1,836	1,958	2,135	2,437	2,628
Engineers (fixed-term)		366	418	451	476	531	585	1,050	1,137	1,223	1,279	1,318	1,316
Partners		374	527	452	420	454	509	624	564	501	510	529	378
Billable cost per engineer (monthly)	(JPY'000)	598	646	653	638	638	659	635	659	665	690	707	710
Billable cost per engineer x No. of engineers x 3mo	(JPYmm)	2,852	3,359	3,671	3,782	4,133	4,680	5,576	6,842	7,201	7,872	8,705	9,165
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	3,553
Number of customers						462	497	548	612	622	661	704	811
Monthly sales per customer x No. of customers x 3mo	(JPYmm)					4,398	4,565	5,843	6,521	6,621	7,036	7,867	8,644
Billable cost per engineer (monthly)	(JPY'000)	599	647	652	638	638	659	635	659	665	690	707	710
No. of active engineers (average)						2,054	2,186	2,779	2,933	3,051	3,205	3,453	3,754
Billable cost per engineer x No. of engineers x 3mo	(JPYmm)					3,931	4,322	5,294	5,799	6,087	6,634	7,324	7,996

Source: Shared Research based on company data

Segment information (quarterly earnings)

Cumulative (JPYmm)	FY08/18				FY08/19				FY08/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	2,657	5,800	9,253	12,792	3,954	8,271	13,649	19,532	6,099	12,831	20,720	28,712
YoY	94.9%	70.8%	63.4%	56.5%	48.8%	42.6%	47.5%	52.7%	54.2%	55.1%	51.8%	47.0%
Enterprise Market	2,314	5,112	8,164	11,276	3,510	7,364	12,155	17,379	5,446	11,565	18,712	25,995
YoY	118.5%	82.4%	71.8%	64.2%	51.7%	44.0%	48.9%	54.1%	55.1%	57.1%	53.9%	49.6%
% of sales	87.1%	88.1%	88.2%	88.1%	88.8%	89.0%	89.1%	89.0%	89.3%	90.1%	90.3%	90.5%
Entertainment Market	343	688	1,088	1,516	444	908	1,494	2,153	653	1,265	2,008	2,717
YoY	12.8%	16.2%	19.4%	16.1%	29.4%	32.0%	37.3%	42.0%	47.1%	39.3%	34.4%	26.2%
% of sales	12.9%	11.9%	11.8%	11.9%	11.2%	11.0%	10.9%	11.0%	10.7%	9.9%	9.7%	9.5%
Operating profit	232	541	904	1,200	318	484	848	1,541	596	1,242	1,630	2,353
YoY	908.7%	631.1%	617.5%	206.9%	37.1%	-10.5%	-6.2%	28.4%	87.3%	156.7%	92.3%	52.8%
OPM	8.7%	9.3%	9.5%	9.4%	8.0%	5.9%	6.2%	7.9%	9.8%	9.7%	7.9%	8.2%
Enterprise Market	510	1,151	1,904	2,610	873	1,803	2,909	4,235	1,050	2,275	3,244	4,449
YoY	128.7%	115.1%	112.0%	89.9%	71.2%	56.7%	52.8%	62.3%	20.3%	26.2%	11.5%	5.0%
% of OP	83.9%	86.2%	86.9%	86.7%	90.1%	89.9%	90.4%	90.1%	89.6%	91.0%	90.7%	91.2%
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%	17.1%
Entertainment Market	98	184	286	400	96	203	310	466	122	226	334	430
YoY	14.0%	15.7%	21.2%	18.8%	-2.0%	10.1%	8.3%	16.3%	26.8%	11.7%	7.9%	-7.6%
% of OP	16.1%	13.8%	13.1%	13.3%	9.9%	10.1%	9.6%	9.9%	10.4%	9.0%	9.3%	8.8%
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%	15.8%
Adjustments	-376	-795	-1,286	-1,810	-651	-1,522	-2,371	-3,161	-576	-1,260	-1,948	-2,526
Quarterly (JPYmm)	FY08/18				FY08/19				FY08/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	2,657	3,143	3,453	3,539	3,954	4,317	5,378	5,883	6,099	6,732	7,889	7,992
YoY	94.9%	54.6%	52.2%	41.0%	48.8%	37.4%	55.8%	66.2%	54.2%	55.9%	46.7%	35.9%
Enterprise Market	2,314	2,798	3,052	3,112	3,510	3,854	4,792	5,223	5,446	6,120	7,146	7,283
YoY	118.5%	60.4%	56.6%	47.0%	51.7%	37.7%	57.0%	67.8%	55.1%	58.8%	49.1%	39.4%
% of sales	87.1%	89.0%	88.4%	87.9%	88.8%	89.3%	89.1%	88.8%	89.3%	90.9%	90.6%	91.1%
Entertainment Market	343	345	400	428	444	464	585	660	653	612	743	709
YoY	12.8%	19.8%	25.4%	8.5%	29.4%	34.6%	46.4%	54.1%	47.1%	31.8%	26.9%	7.6%
% of sales	12.9%	11.0%	11.6%	12.1%	11.2%	10.8%	10.9%	11.2%	10.7%	9.1%	9.4%	8.9%
Operating profit	232	309	363	296	318	166	364	693	596	647	388	723
YoY	908.7%	505.9%	598.1%	11.7%	37.1%	-46.3%	0.2%	134.1%	87.3%	289.7%	6.6%	4.4%
OPM	8.7%	9.8%	10.5%	8.4%	8.0%	3.8%	6.8%	11.8%	9.8%	9.6%	4.9%	9.1%
Enterprise Market	510	641	753	706	873	930	1,106	1,326	1,050	1,226	968	1,205
YoY	128.7%	105.4%	107.4%	48.3%	71.2%	45.1%	46.9%	87.7%	20.3%	31.8%	-12.5%	-9.2%
% of OP	83.9%	88.0%	88.2%	86.2%	90.1%	89.7%	91.2%	89.5%	89.6%	92.1%	90.0%	92.6%
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%	16.5%
Entertainment Market	98	86	102	114	96	107	107	156	122	105	108	96
YoY	14.0%	17.8%	32.5%	13.2%	-2.0%	23.9%	4.9%	36.5%	26.8%	-1.8%	0.8%	-38.5%
% of OP	16.1%	11.8%	11.9%	14.0%	9.9%	10.3%	8.8%	10.5%	10.4%	7.9%	10.0%	7.4%
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%	13.5%
Adjustments	-376	-419	-491	-524	-651	-871	-849	-789	-576	-683	-689	-578

Source: Shared Research based on company data

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

Full-year FY08/20 results

Overview

- ▷ Sales: JPY28.7bn (+47.0% YoY)
 - ▷ Operating profit: JPY6.6bn (+52.8% YoY)
 - ▷ Recurring profit: JPY2.5bn (+64.1% YoY)
 - ▷ Net income*: JPY1.6bn (+69.9% YoY)
- *Net income attributable to owners of the parent
- ▷ In Q4, the spread of COVID-19 continued to impact the utilization rate, but the parent company utilization rate started recovering from August, increasing 2.3pp compared with July. GPM was flat versus Q3 at 29.9% in Q4, while OPM increased to 8.9% (5.1% in Q3) due to the company controlling SG&A expenses.
 - ▷ Versus full-year FY08/20 forecasts, sales were 102.5%, operating profit 98.1%, recurring profit 105.6%, and net income 113.7%. Operating profit fell short of target because of the impact from the company paying out JPY85mn in risk allowance payments related to the pandemic.
 - ▷ Full-year FY08/21 forecast: SHIFT announced full-year FY08/21 forecasts of JPY45.0bn in sales (+56.7% YoY), JPY3.4bn in operating profit (+44.5% YoY), JPY3.4bn in recurring profit (+34.1% YoY), JPY2.1bn in net income attributable to owners of the parent (+27.4% YoY), and JPY132.18 in EPS. It also announced 1H FY08/21 forecasts of JPY20.0bn in sales (+55.9% YoY), JPY1.2bn in operating profit (-3.4% YoY), JPY1.2bn in recurring profit (-5.7% YoY), JPY700mn in net income attributable to owners of the parent (-7.2% YoY), and JPY44.06 in EPS. Refer to the Full-year company forecasts for FY08/21 section for further details.

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 Q4 FY08/20, the company had monthly sales per customer of JPY3.6mn and 811 customers. Multiplying the demand-side factors (for three months) yields sales of JPY8.6bn, which roughly approximates to the JPY8.0bn in sales posted by the company. Meanwhile, the billable cost per engineer during the period was JPY710,000 and the number of active engineers 3,754. Multiplying the supply-side factors (for three months) results in sales of JPY8.0bn, which is mostly 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 full-year FY08/20, the gross profit margin was 31.2%. GPM was 30.6% for testing projects (which accounted for 64.9% of sales), 62.5% for high value-added services (8.5%), and 22.6% for development projects (26.6%). Compared to full-year FY08/19, GPM for high value-added services improved. Overall gross profit margin was down 0.6pp 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. From 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 over full-year FY08/20 as the company participated in projects focused on building long-term relationships. As a result, full-year FY08/20 sales in the Enterprise Market came to JPY26.0bn (+49.6% YoY) and operating profit to JPY4.4bn (+5.0% 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 full-year 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, full-year FY08/20 sales came to JPY2.7bn (+26.2% YoY) and operating profit to JPY430mn (-7.6% YoY).

Full-year company forecasts for FY08/21

FY08/21 company forecasts

(JPYmn)	FY08/19			FY08/20			FY08/21		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	8,272	11,260	19,532	12,831	15,882	28,712	20,000	25,000	45,000
YoY	42.6%	61.0%	52.7%	55.1%	41.0%	47.0%	55.9%	57.4%	56.7%
Cost of sales	5,585	7,730	13,316	8,628	11,134	19,762			
Gross profit	2,686	3,530	6,216	4,202	4,748	8,950			
GPM	32.5%	31.4%	31.8%	32.8%	29.9%	31.2%			
SG&A expenses	2,202	2,473	4,675	2,960	3,637	6,597			
SG&A-to-sales ratio	26.6%	22.0%	23.9%	23.1%	22.9%	23.0%			
Operating profit	484	1,057	1,541	1,242	1,111	2,353	1,200	2,200	3,400
YoY	-10.5%	60.3%	28.4%	156.7%	5.1%	52.8%	-3.4%	98.0%	44.5%
OPM	5.9%	9.4%	7.9%	9.7%	7.0%	8.2%	6.0%	8.8%	7.6%
Recurring profit	480	1,065	1,545	1,272	1,263	2,535	1,200	2,200	3,400
YoY	-14.6%	57.6%	24.8%	165.2%	18.6%	64.1%	-5.7%	74.2%	34.1%
RPM	5.8%	9.5%	7.9%	9.9%	8.0%	8.8%	6.0%	8.8%	7.6%
Net income	262	709	970	754	895	1,649	700	1,400	2,100
YoY	-23.0%	2431.2%	163.7%	188.1%	26.2%	69.9%	-7.2%	56.5%	27.4%
Net margin	3.2%	6.3%	5.0%	5.9%	5.6%	5.7%	3.5%	5.6%	4.7%

Source: Shared Research based on company data

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

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

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