SHIFT

INTEGRATED REPORT **2022**

April 20, 2023



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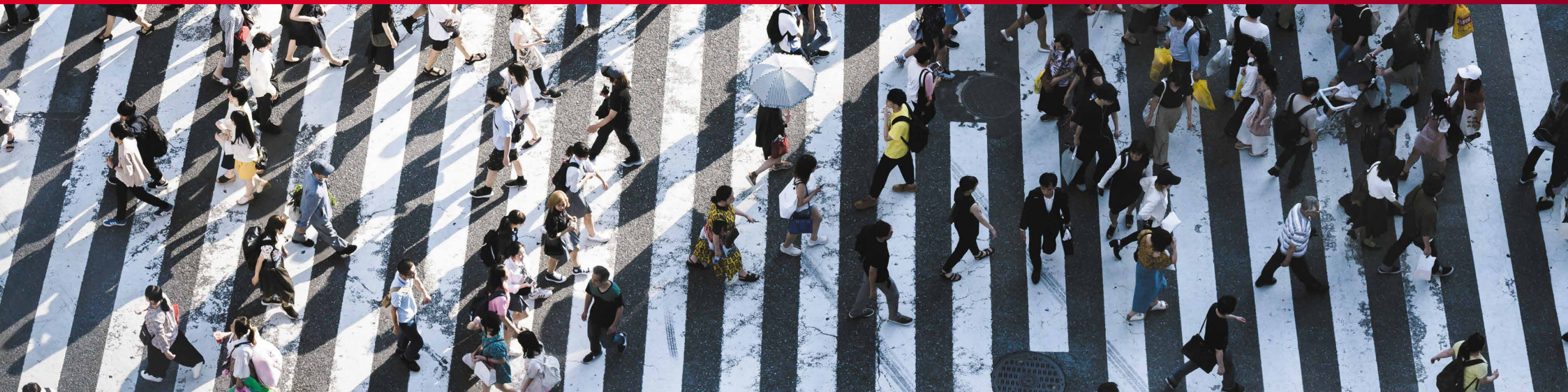


SHIFT

SHIFT, a Provider of Solutions to Social Issues

SHIFT provides systematized software testing with an innovative approach beyond the conventional practices of the IT industry and has established quality assurance standards for development sites and the entire IT industry.

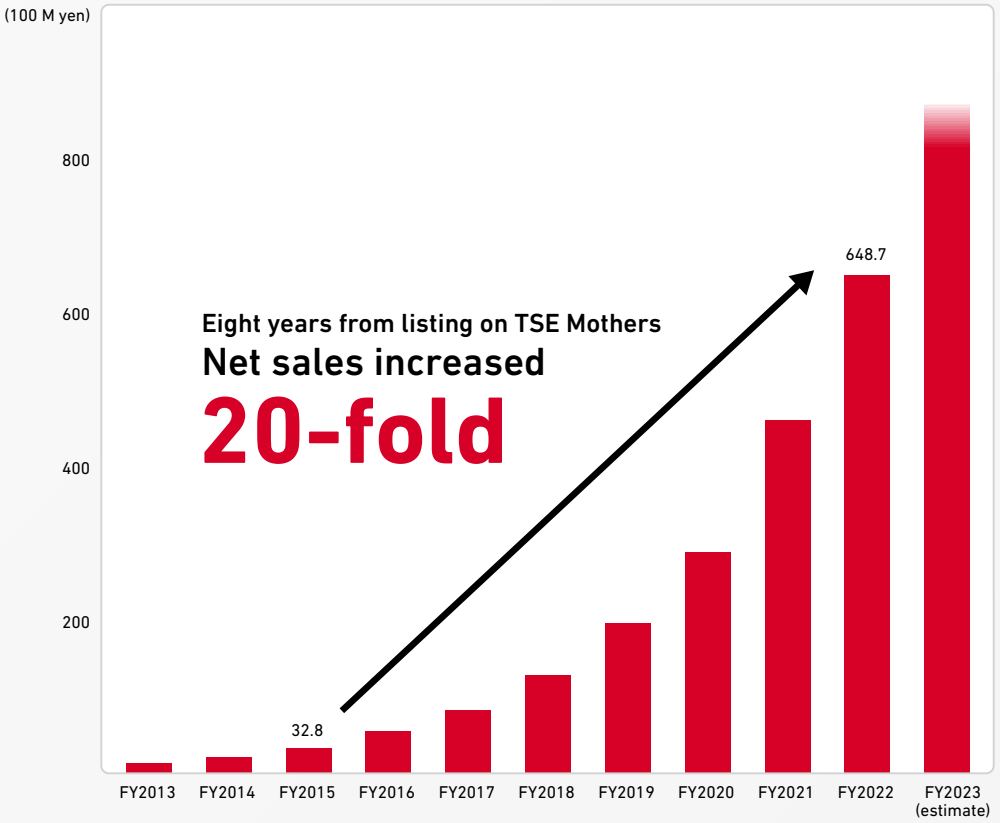
As a pioneer in software quality assurance and an industry driver, the SHIFT Group contributes not only to the IT industry but also to the resolution of social issues in Japan under the following philosophy: "We seek out new value concepts and work sincerely to provide value to the world."



Growth of SHIFT from its foundation to the present

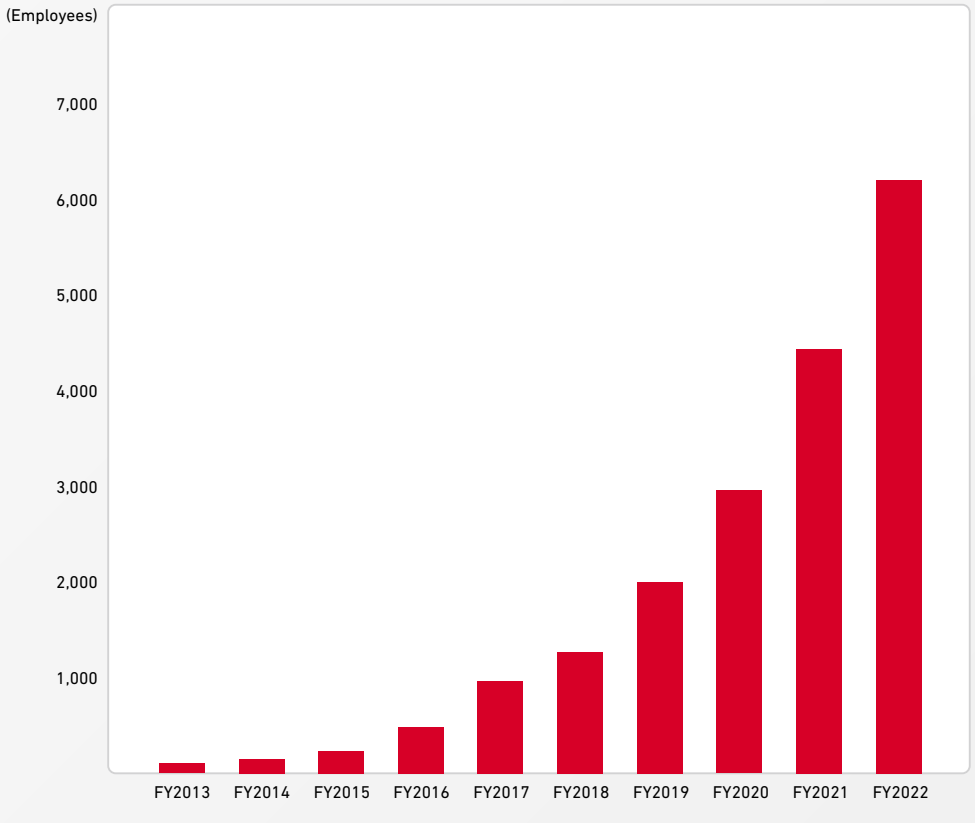
Starting from the software testing business, SHIFT has expanded its business areas in line with its corporate growth. The SHIFT Group aims not only to provide quality assurance and manufacturing services but also to support customers in creating marketable services with the participation of group companies that have diverse specialized technologies, maintaining continuous growth as ONE-SHIFT.

Net sales (consolidated)



Employees (consolidated)

*Full-time employees as of term end

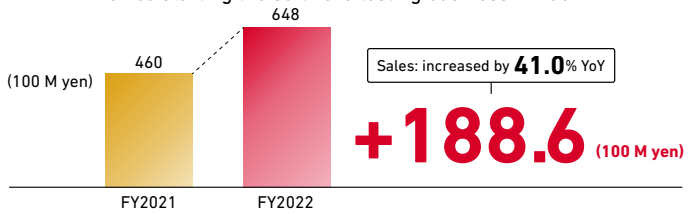


SUMMARY OF FIGURES

Business growth achieved over the past year

Net sales (consolidated)

Continuous growth over the 13 consecutive terms since starting the software testing business in 2009



Sales: increased by **41.0**% YoY

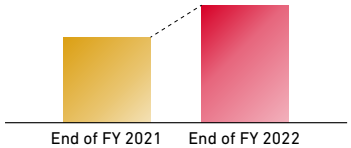
+188.6 (100 M yen)

Engineers (consolidated)

Increase in engineers as a key driver of business growth

Consolidated engineer members: increased by **37.6**% YoY

8,415

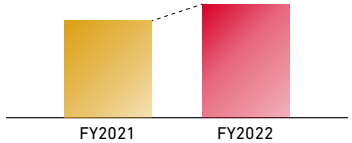


Customer companies (consolidated)

Developing new customers for increased market shares and recognition

Consolidated customer companies: increased by **17.3**% QoQ

1,368



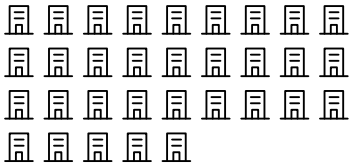
*Cross-sectional figures in Q4 of each year

Group companies

Group management to become a team of providers of comprehensive IT services

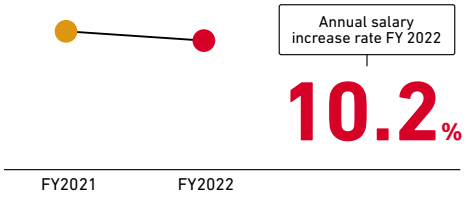
Group companies: increased by **2** YoY

32



Annual salary increase rate (parent-only)

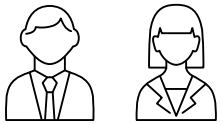
Salary increase rate maintained at a high level



Fair appraisal and market-competitive remuneration for promising and capable human resources

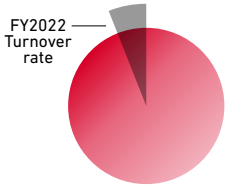
Average salary increase rates of male and female employees

Male	Female
10.3%	**10.2**%



Employee turnover (parent-only)

Employee turnover is decreasing through ES* improvement measures focused on a sense of fulfillment, salary, and colleagues.



Turnover rate: improved by **0.5**% YoY

6.9%

*ES: employee satisfaction

Providing innovative solutions in succession in the IT industry of Japan, thereby contributing to the growth of the entire industry

SHIFT Inc. was founded in 2005 and established the software testing field pursuing increased efficiency, cost reduction, and quality improvement that were achieved by dividing the conventional operations of engineers into the development and testing parts, thereby developing test engineers as specialized professionals for handling the testing part. We at SHIFT continue establishing systems for providing innovative solutions that will substantially reform the IT industry in Japan and satisfy the diverse needs of customers in the rapidly changing information society.

2009 Software testing was started in full scale.

2010 The aptitudes required for software testing were quantified, and the CAT test was developed as a pre-employment exam for measuring aptitudes, thereby enabling the employment of non-IT human resources who have the aptitudes.

2012 Started providing related services, such as the PMO service and consulting that supports the upstream development process based on the knowledge and data obtained in the testing business.

2016 Entered the enterprise business field in full scale with the full-fledged recruitment of highly skilled human resources seeking further growth in the medium and long term.

2019 Started M&A in full scale as one of the growth strategies, launching ONE-SHIFT services that support the entire business process of customers.

2020 Started providing services committed to customers in creating marketable services by leveraging all data ranging from the planning and development processes to the post-launch phase of products and services.



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Editorial policy

In the edition of this Integrated Report, emphasis was placed on facilitating a deeper understanding of (1) SHIFT's permanent strengths that achieve continuous growth and on (2) SHIFT's approach to business activities that always inseparably combines business growth and the provision of social value. The edition was performed referring to the public disclosure framework set by the International Integrated Reporting Council (IIRC).

Our hopes in issuing this Integrated Report

The SHIFT Integrated Report 2022 is the first integrated report issued by SHIFT. This was edited for facilitating a deeper understanding of SHIFT among all persons, including persons who only know our company name, customers of SHIFT for many years, investors, persons job hunting or changing jobs, and SHIFT employees and their families. We at SHIFT will continue the search to become a better company by valuing dialogs with all stakeholders through our business activities, public relations, and investor relations.

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Reported period: from September 1, 2021, to August 31, 2022 (including certain information from September 2022 and after)
Scope of reporting: SHIFT Inc. and its group companies
Detailed information on financial results: For more detailed information on financial results for the term ended in August 2022, see the Annual Securities Report.

Disclaimer on forward-looking statements

The materials and information provided in this report include forward-looking statements. Such statements are based on the estimates, forecasts, and assumptions that involve risks at the time, and the actual outcomes may differ substantially from these statements. Such risks and uncertainties may include industrial and market conditions, interest rates, currency exchange fluctuations, and other domestic and global economic conditions. SHIFT is not obliged to update or modify forward-looking statements in this document, even if new information or future events may arise.

CHAPTER 00 — S — SOUL OF US

01 H

02 I

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SHIFT

"We seek out new value concepts and work sincerely to provide value to the world."

CEO MESSAGE

CEO MESSAGE
MASARU TANGE

Masaru Tange, President and CEO, SHIFT Inc.



To become a company that continuously provides new value to society by resolving social issues

Significance of our existence as a company

IT has become a significant part of the social infrastructure that underlies the development of a nation and its industries. To maintain and advance the IT capabilities of Japan, IT labor shortages and many other issues within the industry must be resolved. The most urgent requirements in the IT industry are to improve the labor environment, raise wage standards, and promote further reform in the industrial structure. These issues can never be resolved through national measures and guidance alone. I believe that all companies engaged in IT must pursue reforms in earnest.

I believe that the significance of the existence of a company is to continuously provide the value needed by the times and society. This is why, through recruiting and M&A, SHIFT seeks to identify and promote actual high-performing engineers who are hidden in the multiple subcontracting structure of the industry, to provide them with rewarding jobs and an environment where they can maximize their performance, and to pay them fair remuneration.

I am confident that the IT industry will improve further by transforming the conventional practices of the industry. This is why SHIFT aims to become an IT industry leader that pursues the resolution of all issues on the frontline. This is also the significance of our existence in society.

"Life must be enjoyed to be truly lived, and a company is the means to enjoy life."

Many people consistently gather at the center of SHIFT. Good services function to benefit people, and the developers of services are also people. Reliable, high-performing colleagues are the engine of a company.

I frequently compare company management to the operation of a small town. First, the town must be safe and secure. Next, an environment must be established where residents with different values and minds can live happily. As a result, people gather in the town. This is why I place the utmost emphasis on the establishment of an environment that supports employees.

I have repeatedly stated that “a company is the means to enjoy life.”

SHIFT recruits high-performing human resources with high aptitudes, has systems for fair appraisals and salary increases, implements training that rewards motivated persons who make an effort to grow, and uses personnel systems that help employees work happily and remain permanently with the company. All these measures have spontaneously arisen from our pursuit of employee satisfaction in SHIFT's management structure centering around people.

I hope that employees who gather in the town of the SHIFT Group will find a sense of fulfillment and pride in their work under these measures and systems and that they use the company to enjoy life to the fullest.

The number of defects that we detect is the number of chances we save people from IT troubles

"Defects remain no matter how much we spend" —

I switched to the present business when I was consulted in this way.

For me, as someone who used to work in manufacturing, the structure of the IT industry seemed extremely distorted. In the manufacturing industry in Japan, all work is specialized and streamlined in the pursuit of quality, and the optimal solution is identified in each process. On the other hand, all processes from the requirement definition to testing in the IT industry are handled by the same company. There are frequent cases where the same programmer tests the code after writing it. The awareness of work optimization is low, and engineers lack motivation for a testing process that has no third-party independence. In my opinion, the industry was chaotic and wasteful.

Since then, SHIFT has continuously developed as a company specializing in testing. We are confident that we are familiar with the importance of quality and knowledgeable in desirable system development because we have knowledge of the final process, because we have handled services for all kinds of businesses and industries, and because we have established expertise based on the identification of many defects.

We provide happiness to as many persons who use products and services of improved quality as the number of defects that we detected in our daily testing services. This is what we take pride in.

To become a company that shifts society toward a better direction

Fortunately, many high-performing persons select and enter SHIFT after exercising their skills on the frontlines of diverse industries. Synergistic companies have entered the SHIFT Group through M&A and other measures, which enable us to jointly provide comprehensive services that cater to customers' issues.

We are receiving an increasing number of inquiries concerning DX in line with recent trends. Today, society and users determine the value of a service. It is important to pursue services that are marketable and continuously used, rather than merely producing them in the present business. This is the idea that SHIFT advocates and promotes.

SHIFT will continue to create valuable businesses and make every effort to contribute to achieving a more vigorous nation by shifting society toward a better direction on the business side.

Masaru Tange, President and CEO, SHIFT Inc.

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CHAPTER 01 — H — HIGH PERFORMANCE BUSINESS MODEL

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CHAPTER 01 — HIGH PERFORMANCE BUSINESS MODEL

A robust business model underlying the high growth of SHIFT contributes to the resolution of social issues.

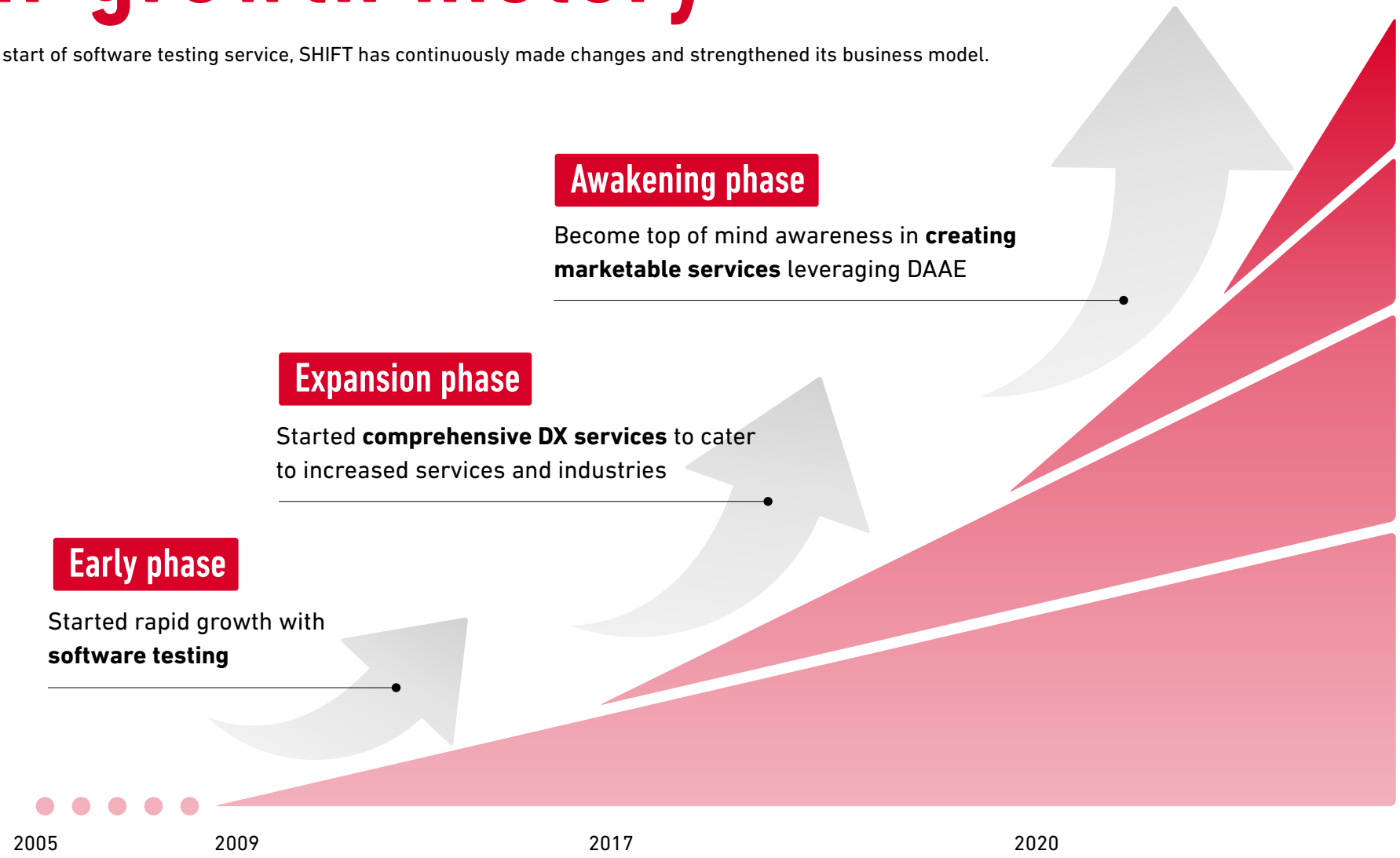
By reviewing the course of continuous growth and changes since the start of the software testing service, this section analyzes the positive influence of SHIFT on the market and how it contributes to social issues.

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015 1 — Early phase Rapid growth started with software testing
020 2 — Expansion phase Comprehensive DX services to cater to increased services and industries
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Our growth history

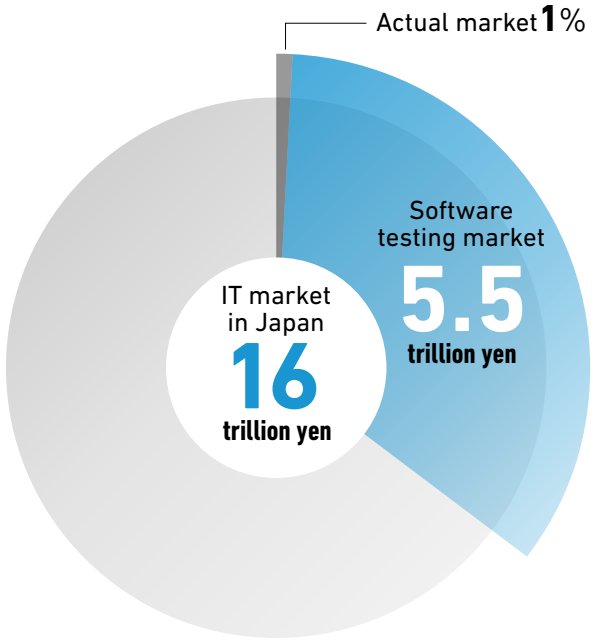
Since the start of software testing service, SHIFT has continuously made changes and strengthened its business model.



1 — Early phase Rapid growth started with **software testing**

Starting with software testing — A blue ocean market of 5.5 trillion yen was uncovered.

SHIFT started its full-scale software testing service in 2009 after receiving an order for software testing from a major e-commerce website operating company. SHIFT recognizes the large market of 5.5 trillion yen, as well as many distortions resulting from the serious problems lurking in the industry and has formulated a structured and numerically expressed business model that has achieved substantial business growth year after year.



*Reference data: 2020 Basic Survey on Information and Communications Industry (FY 2019 Results), Ministry of Economy, Trade and Industry, and WHITE PAPER Software Development Data 2018–2019

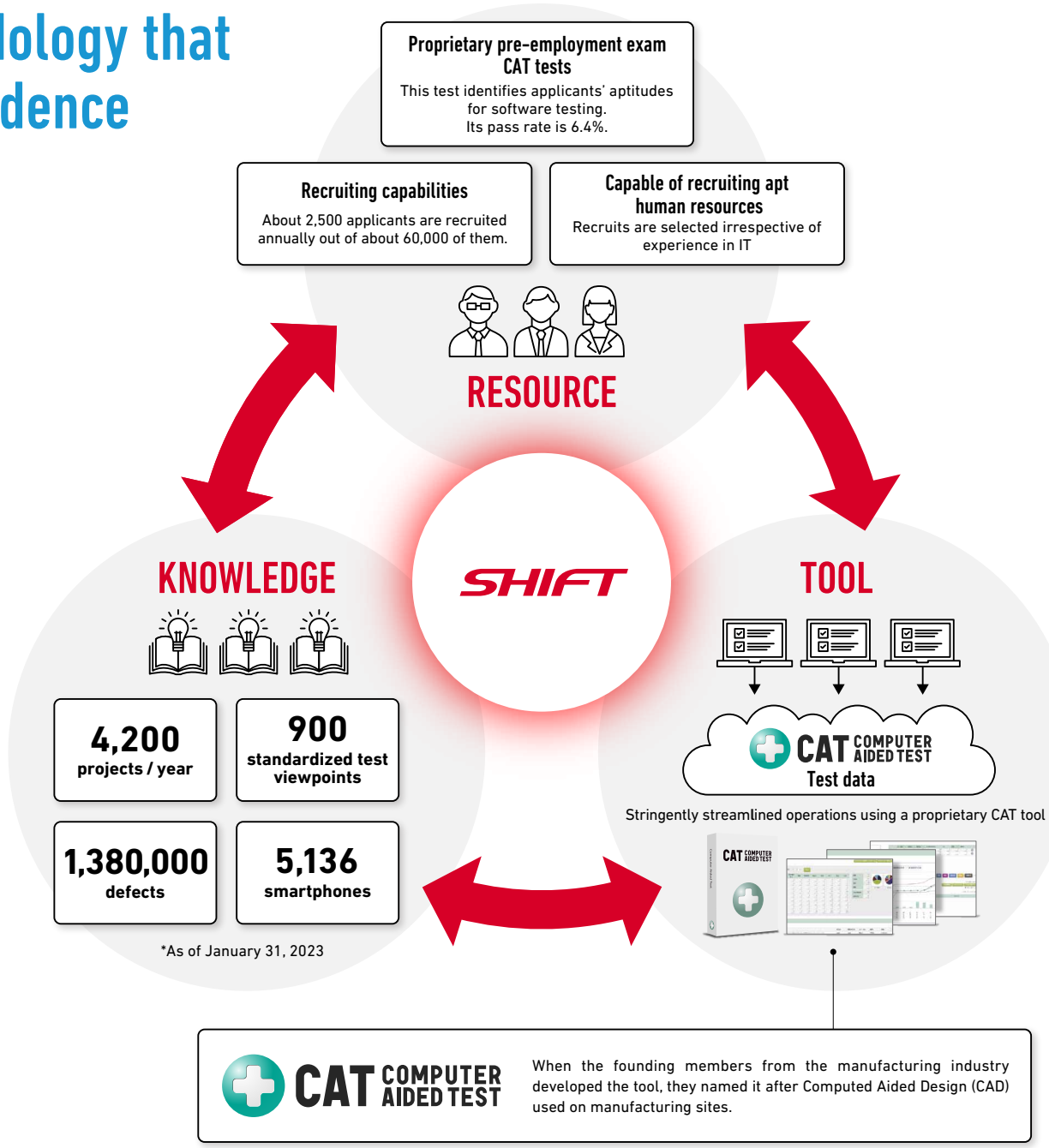
Systematized methodology that eliminates the dependence on individual skills

In software quality assurance and testing, SHIFT's core competence centers around human resources, tools, and knowledge.

In the aspect of human resources, SHIFT implements its proprietary CAT tests with a pass rate of only 6%. By recruiting well-performing human resources without experience in IT, based on the measurement of aptitudes for actual operations, instead of knowledge/skills and experience, SHIFT has established an environment where diverse members can exercise their abilities irrespective of experience in the industry plagued by labor shortage.

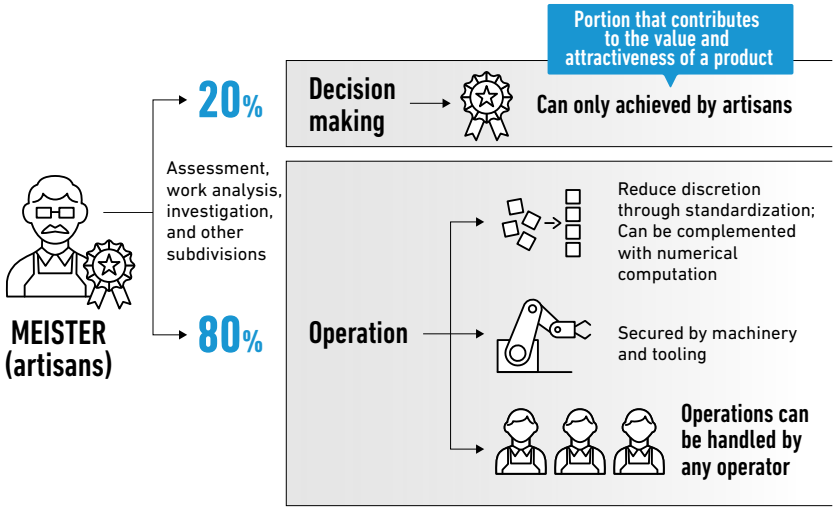
Daily operations are stringently managed using CAT, an integrated software test management tool developed by SHIFT. CAT monitors test progress and controls profitability in real time.

In this way, SHIFT handles more than 4,200 projects annually without limiting products and industries. Findings that consist of as many as more than 1,380,000 defect data have been accumulated. These data have been analyzed as knowledge to establish nearly 900 test viewpoints. Thus, assessment by humans have been minimized to eliminate dependence on individual skills in test quality. The knowledge is utilized not only in the testing process, but also in the upstream development process. This has led to diverse services that enable efficient and high-quality product development.

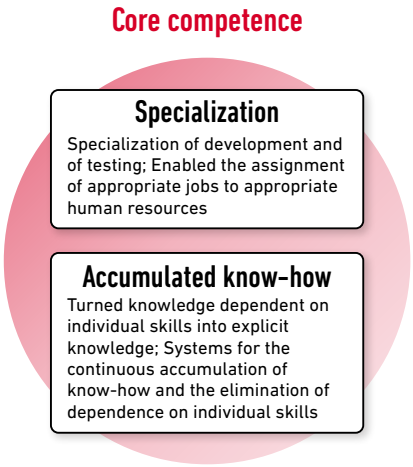


SHIFT transformed software testing, which used to be dependent on individual skills, into scalable services while maintaining expertise.

Having roots in consulting service for manufacturers → **Promoting structural reform in the IT industry**



Applied to the software testing process in the IT industry



On manufacturing sites in Japan, many parts and products have been produced by the artisanship and intuition of skilled operators. The exhaustive decomposition and process visualization indicate that these artisanship and intuition can be divided into the 20% assessment portion that requires the knowledge of artisans and the 80% operation portion. By standardizing and systematizing this 80% operation field, it becomes possible to increase operators who work while maintaining specified quality.

SHIFT's business model originated in the utilization of know-how accumulated by the founder Tange and other founding members of SHIFT who served as consultants for operational improvement in the manufacturing industry. In this way, operational improvement consulting for manufacturing industry has become the root of SHIFT and formed the base of its business.

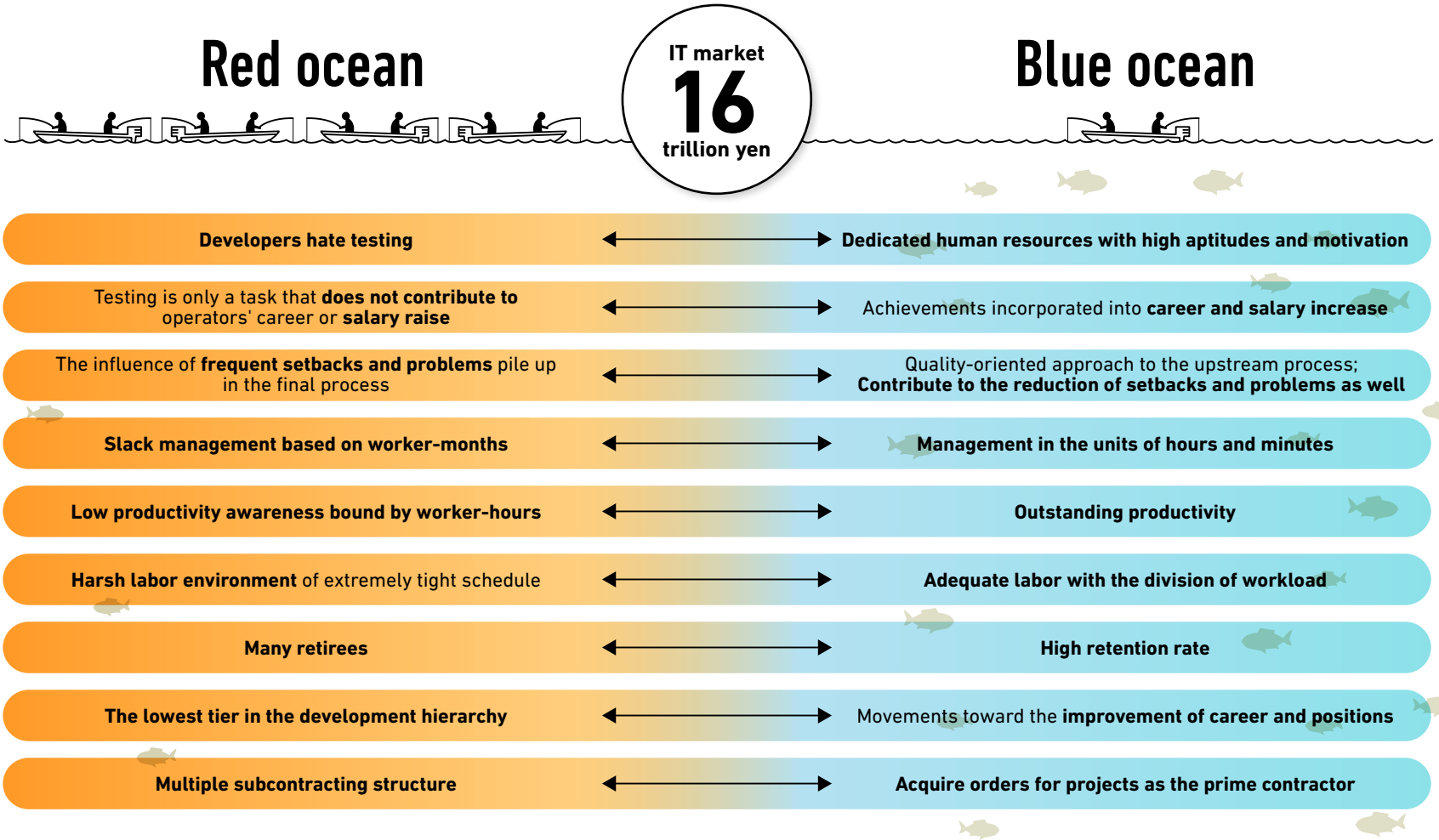
Conventional software testing was usually performed by development engineers as a part of their operations with inadequate methodology and common solutions.

We at SHIFT were confident that the exhaustive decomposition and process visualization of artisanship and intuition would improve the conventional practice. We divided the testing process into the 20% assessment portion and the 80% operation portion and systematized the portions, thereby successfully establishing systems that broadly engage non-IT human resources in testing.

The division of software development and testing brought about innovative benefits in the IT industry in Japan: our tests performed with higher quality and lower cost than testing by development engineers, streamlined testing operations by optimized specialists, and quality assurance with third-party independence that eliminates dependence on individual skills.

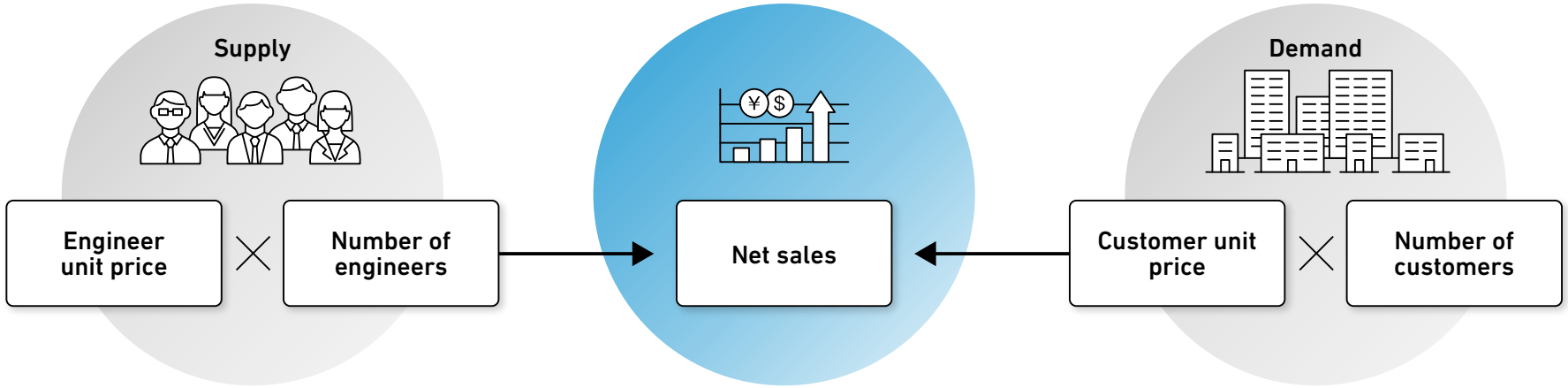
Sources of outstanding business growth: Broad market, gaps lurking therein, and business model

To achieve outstanding business growth, we at SHIFT consider it important to take a position in a broad market and to focus on the gaps lurking therein. By changing aspects in the industry in which we take a position, we can regard it as a blue ocean and take a new approach.

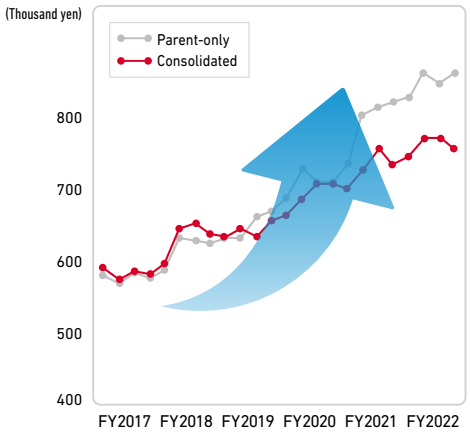


An equation for business growth

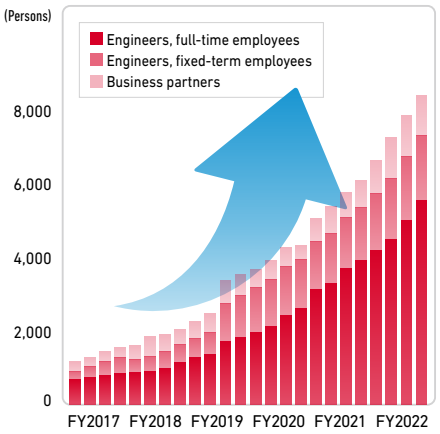
SHIFT has a culture of decomposing matters with numerical expressions into a simple equation and upgrading the respective components. Sales components consist of the service supply side, which represents engineer unit price multiplied by the number of engineers, and the demand side, which represents customer unit price multiplied by the number of customers. We operate our businesses using growth in these inductively identified universal components as KPIs. These decomposition and visualization processes take balance between supply and demand, thereby achieving continuous stable growth.



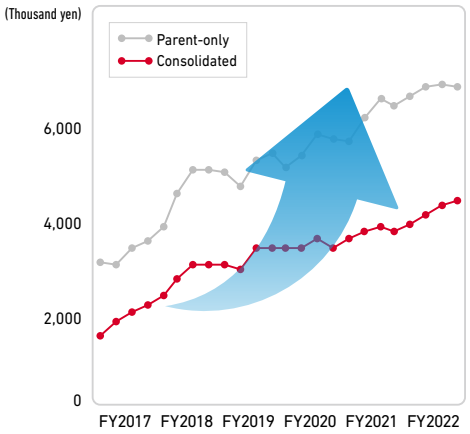
Engineer unit price



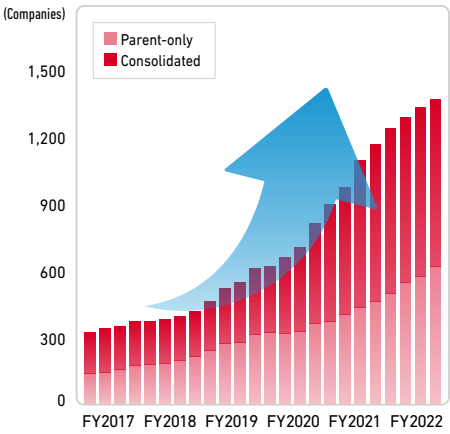
Number of engineers (consolidated)



Customer unit price



Number of customers



2 — Expansion phase **Comprehensive DX services** to cater to increased services and industries

From software testing to comprehensive DX services

Starting from software testing, many solutions have been created in response to the DX support needs of customers.

Expansion of solutions

Support for driving new businesses
Support for DX promotion

Consulting	Support for conceptualization
	Development of new services
	DX criteria diagnosis
Support for state-of-the-art technologies	Low-code development
	Offshore development
	DevOps
	Support for AI / big data
	Analytics
Promotion	Marketing
	PMO

Support for e-commerce website / CX design construction
E-commerce consulting

Consulting / implementation	E-commerce consulting
	Website planning / production
	Website marketing
	Graphic design
	UI / UX and CX support service

Support for reducing business incident cost
Security support

Consulting / diagnosis	Security consulting
	Vulnerability diagnosis
	Penetration test
	Stress test

Support indispensable for conformity to QCD
Support for quality assurance and testing

Quality warranty	Test planning
	Test design
	Test implementation
	Translation / language quality assurance
	Test automation
	QA promotion / quality evaluation
	Inspection
	PMO (project management / test promotion)

Support for effective means to cope with purposes
Support for development / infrastructure

Infrastructure	Infrastructural construction
	Network
	Cloud
	ERP (SAP)
Development	Development
	Offshore development
Improvement	IT automation (CI / CD and RPA)
	Performance improvement service
	Troubleshooting

Support for reducing operational cost
Support for operational streamlining

Operation	Multilingual help desk
	Security help desk
	Monitoring 24 / 365
	Manual preparation
	FAQ / Chatbot operation
	System / infrastructure operation
Rollout	PC marketing
	Kitting

IT support for solutions to business requirements
IT / platform consulting

Consulting	Support for conceptualization
	Development of new services
	DX criteria diagnosis
	Agile development
	Low-code development
	Offshore development
	DevOps
	Support for AI / big data
	Management
Promotion	PMO

Support for HR development to achieve self-running operation
Support for HR development

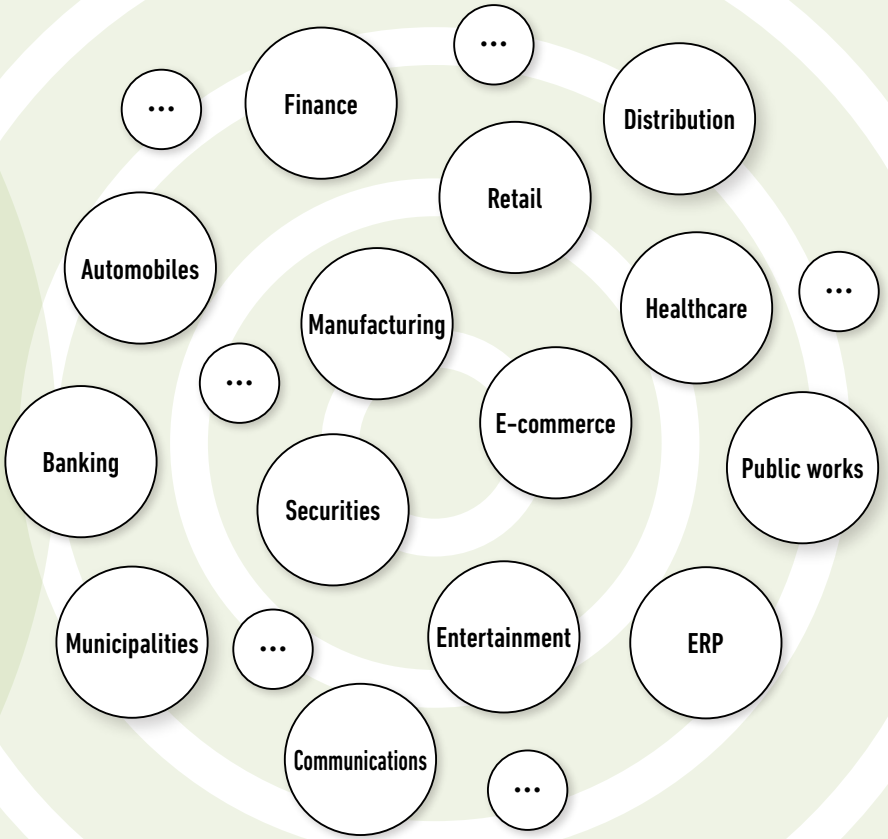
Concepts	Basics (quality test / RPA etc.)
	Engineering (design / DevOps / UX / RPA etc.)
	Management (strategy / planning / control / CX / agile etc.)

Comprehensive DX services

From a specific industry to all industries

Starting from e-commerce websites, SHIFT has expanded to all industries including finance, communications, manufacturing, and retail by leveraging its powerful solutions.

Expansion of industries



Becoming prepared for reaching the DX requirements of customers as ONE-SHIFT, which consists of group companies specializing in their respective fields and gathered through M&A

Our group structure has become increasingly prepared for providing specialized services, such as design, marketing, UI/UX consulting, analysis, development, testing, offshoring, security, SRE,* performance test, PC marketing, and CS, which respectively cater to components required for the customers' DX and successful businesses.

*SRE: Site Reliability Engineering

IT governance	IT governance (budget management etc.)	SHIFT	SHIFT ASIA	✶A-STAR	
	Development / HR quality management	SHIFT	SHIFT ASIA	✶A-STAR	
Application	UI / UX and UAT marketing	saunashi	株式会社 分析屋	nadia	DICO / CLUTCH
	Planning / requirement definition	Methodo LOGIC	Post-release services	SHIFT PLUS+	
	Test	SHIFT	SHIFT ASIA	✶A-STAR	
	Design / development	SI 株式会社システムアイ / ALH	VISH Inc.	HOPES	DEMIA
Infrastructure	Platform grand design	SHIFT	SHIFT ASIA	✶A-STAR	
	Database / middleware	Airitech	Servers	SI 株式会社システムアイ / RGA	
	OS	Airitech	Terminals	株式会社SNC	
Network	Network		Security	SHIFT SECURITY	
Data center	Data center / cloud				
Software services	Business systems				



From software testing to comprehensive DX services

Creating marketable services — DAAE methodology for successful business proposed by SHIFT

DAAE is a framework for successful business and business development by moving away from the conventional development techniques and methodology and achieving expeditious kickoff for successful business. SHIFT aims to become a company that helps customers achieve outstanding growth in their business.

From SHIFT as a provider of software testing services → To SHIFT as a creator of marketable services

A company that provides contract software testing services

A company that commits to the successful business of customers

Concerns in traditional value standards

GENERAL

Q C D

QUALITY COST DELIVERY

Slow adaptation to changes

To take balance in value standards, it is difficult to make decision that proactively incorporates modern DX technology components.

Difficulty in expediting the process

Outsourcing and requesting processes directly inhibit expediting the process. Plans and budgets also usually assume certain risks.

Viewpoint of marketing tends to be omitted

Because review proceeds divided into individual projects in principle, the development process is separated from the viewpoint of cross-sectional digital marketing.

Costs concentrated on the development process

The essential goal is left unattained, because costs are concentrated on the review and development of realization methods and technical limitations.

Co-creation of winning services that share the new value standards

SHIFT GROUP

D A A E

DESIGN AGILITY ASSEMBLY ECONOMIC QUALITY

Flexibly adapting to market changes

To promptly respond to the trends of users and markets, high-performing development teams that have all cutting-edge technical assets are formed.

Frequent release and improved lead-time

Priorities are designed considering release speed so that hypothesis testing can be performed at a high-speed following the first launch.

Seamless linkage with marketing measures

Directors and designers are also engaged in the process so that seamless linkage is achieved considering users' perspectives and actual usage data.

Emphasis on appearance design

Usage by users is promoted through the understanding of services based on appearance design, which is improved through small starts.

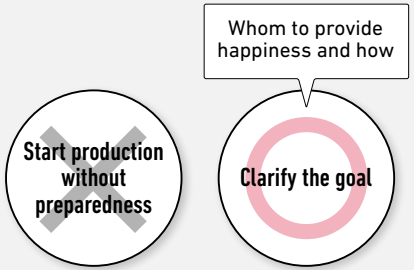
Creating marketable services — DAAE methodology for successful business proposed by SHIFT

The SHIFT Group has become capable of providing internally integrated services through the expansion of solutions and industries combined with the establishment of a ONE-SHIFT structure. DAAE is thus a framework for moving away from the conventional development techniques and methodology and achieving expeditious kickoff for the successful business of customers.

DAAE development support model committed to creating marketable services

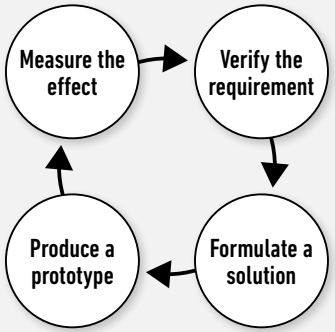
—— Creating marketable services committed to the successful business of customers ——

1 Identify whom to provide happiness as the center pin of business in the service



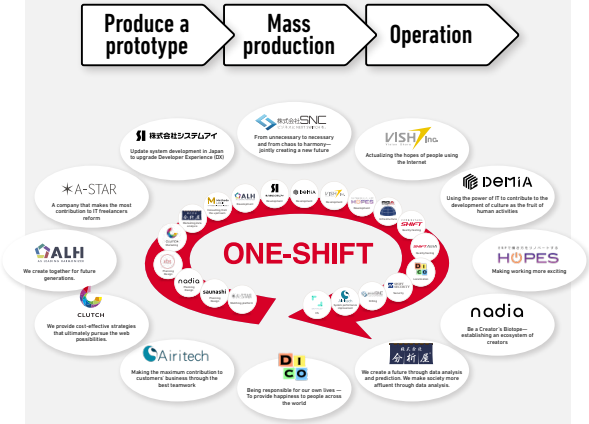
- Identify the essence of value provision to users in services
- Clearly define and specify the persona to identify the center pin of business
- Perform exhaustive simulation and actualize services from the users' perspectives

2 Produce a prototype at a high-speed cycle to increase the resolution



- Produce a system prototype and check the user experience by actually operating the system
- Verify in the prototype whether the goal to be delivered to the target is adequately materialized
- Brush up the prototype beyond the expected performance to commercialize the service

3 After releasing a minimum usable product, continue to contribute to its growth as a project member



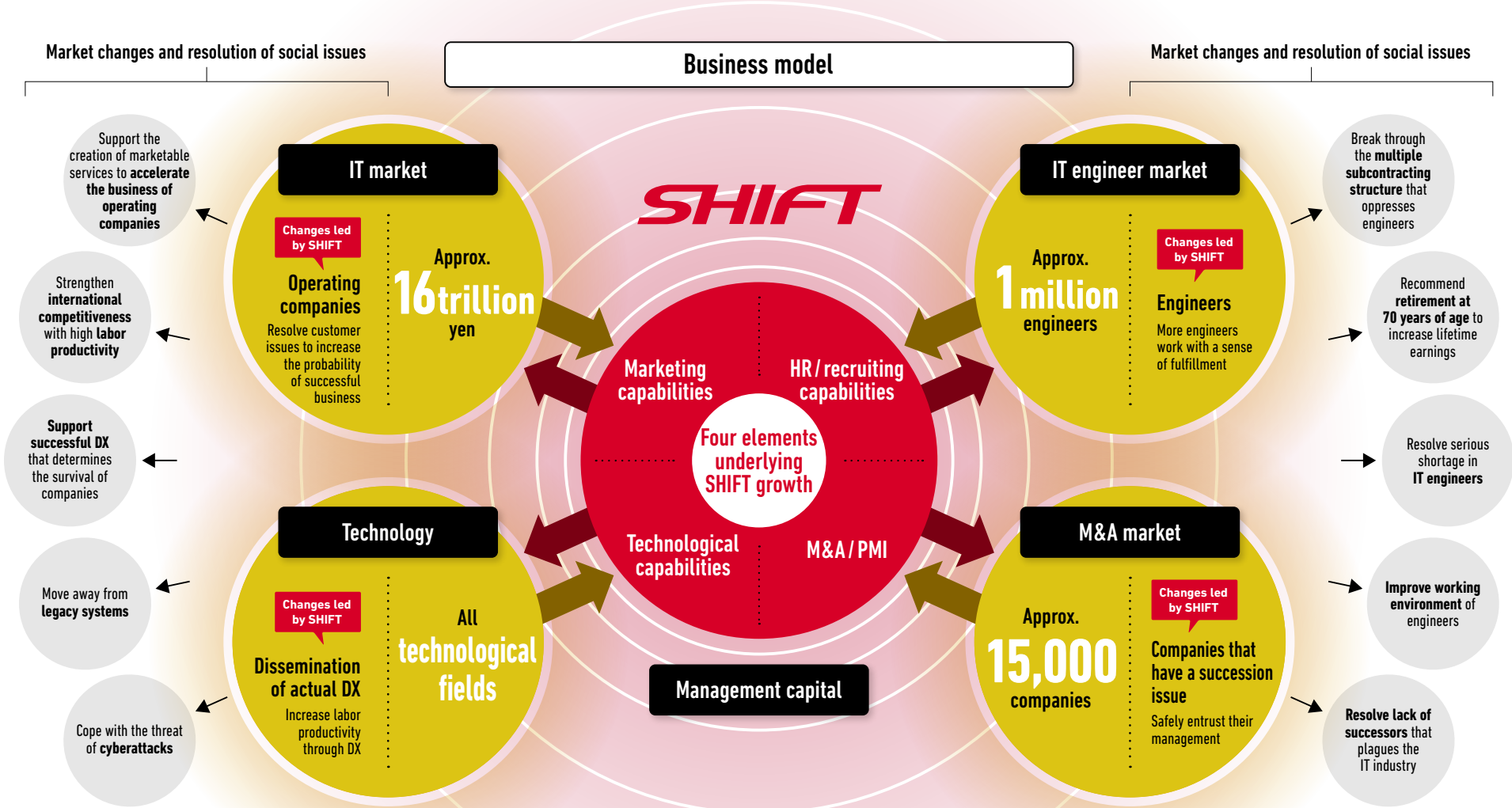
- Deliver a marketable service to the customer, propose marketing measures as the SHIFT Group, and contribute to its growth

Social significance of SHIFT

Value creation process —growth of SHIFT leads to the resolution of social issues

SHIFT aims to remain a company that broadly resolves social issues through the sustainable growth of the SHIFT Group. Toward this goal, the SHIFT Group expands and deepens its business by continuously upgrading its management resources and maintaining the strength to keep changing in response to social situation.

We at SHIFT continue to create new value while pursuing the significance of our existence as a company so that IT will expand across businesses and industries to make society a safer and more secure environment for comfortable living.



The prospects of SHIFT formed our confidence, decisions, and passion.







THREE-DIRECTOR DISCUSSION

MICHIO SASAKI
Director and Vice President

×

TAICHI HATTORI
Director and CFO

×

MOTOYA KOBAYASHI
Director

In addition to the founder Tange who continues to represent the company, SHIFT has three other internal directors who have different backgrounds and lengths of service at SHIFT.
How do these directors with diverse backgrounds consider the present SHIFT and seek to lead SHIFT in the future? A discussion of the three directors is reported below.

Q1 What did you think when you were appointed a director of SHIFT?

Hattori: SHIFT will continue growing—this confidence was strengthened in me. Before I was appointed director, I read the IR materials of SHIFT. I thought that the strengths of the company were its market, business structure, and strategies; however, these had yet to be brought home to me. After entering the company, I recognized that SHIFT was carefully and exhaustively implementing each of the several tens of strategies with continuous fine tuning without aiming to make a fortune all at once. When I recognized that these implementation capabilities and operational excellence were the real strengths of SHIFT, I was confident that it would continue to grow.

Sasaki: "I would have placed orders with SHIFT if I had known it"—this is what I considered when I learned about SHIFT because I had been annoyed by the quality of systems and software testing in my previous jobs. SHIFT clarified and commercialized the difference in performance among test properties and testers. I decided to join SHIFT because I was amazed and impressed by their perspectives.

Since joining SHIFT, I have had periodic study meetings. Every time I learn of the mindset of SHIFT, I find it ideal. The business ideals that underlie SHIFT are to eliminate the multiple subcontracting structure in the IT industry, provide support, satisfy customers, and increase the salaries paid to employees—above all, SHIFT sincerely pursues these goals. Although many companies talk about their dreams and ideals, I doubt that many seriously take the appropriate action.



From left: Michio Sasaki, Director and Vice President; Taichi Hattori, Director and CFO; and Motoya Kobayashi, Director

Q2 What would you like to do at SHIFT?

Hattori: Because SHIFT has continued to grow rapidly, its corporate phase has kept changing. Risks increase in line with such changes. Therefore, I consider my role to establish a defense without curbing this growth. In January 2022, SHIFT Growth Capital was established to manage M&As and the group company business, and I was appointed representative director. The purpose of this company is not only to have new members participate in



Michio Sasaki, Director and Vice President, Appointed November 2020, *Outside Director, Audit Committee Member from November 2018 to November 2020

the group through M&As but also to exhaustively pursue the equations for co-prosperity with group companies while formulating financial strategies to support that prosperity.

Sasaki: SHIFT deals in a blue ocean market but has only acquired a part of it. We can provide not only software testing but also such diverse services as DX support, agile development, and a project management office (PMO). To further disseminate these wonderful services and satisfy a greater number of people, I hope to further strengthen the marketing force to work in close collaboration with the delivery force. I believe that SHIFT has much room for further growth as our marketing force gains strength.

Q3 What do you think after reviewing the COVID-19 pandemic?

Paradigm shift in software testing brought about by the COVID-19 pandemic

Kobayashi: The novel coronavirus certainly had a substantial impact on the global economy as well as the Japanese economy. On the other hand, the other aspect is that the IT shift and the online shift advanced rapidly, which otherwise would have taken five to ten years. While many companies needed IT to promote DX, the IT labor shortage became more noticeable than ever before. This seems to have caused changes in the means of manufacturing using IT.

Conventionally, IT-related manufacturing was typically outsourced to system integrators (SIers) as a package. Recently, it has become common for customers to control their manufacturing. At the same time, their quality awareness has been rising. To support customers in guaranteeing quality, these capabilities of SHIFT have completely matched the needs of society. We may say that SHIFT took the opportunity caused by the COVID-19 pandemic.

Sasaki: In fact, we successfully introduced our services to customers, such as the PMO and agile development, starting with testing even during the COVID-19 pandemic. In addition to the testing service, I feel that an atmosphere of "Trust in SHIFT and rest assured" has been fostered over the past one to two years. Although I had assumed a negative impact from the COVID-19 pandemic at first, SHIFT has achieved growth without facing adverse winds. This has formed substantial

confidence in the company.

Kobayashi: Partly owing to the leap of SHIFT during the pandemic, the views of customers and the IT industry on software testing seem to have changed. Whereas customers were previously reluctant to perform testing, we now receive requests to improve their projects and service qualities. These changes took place within the past few years. Because the position of software testing in the industry has been raised, it is now possible to recruit more high-performing human resources than ever before. This is the background to our announcement that we will attain SHIFT 1000, a medium-term growth strategy aimed at net sales of 100 billion yen ahead of the original schedule. The condition has taken a substantially favorable turn. What we need to do is simply increase sales. I am confident that we will carry this out.



Taichi Hattori, Director and CFO, appointed November 2021

Q4 What did you discuss with the president and at the Board of Directors?

Agile decisions and vigorous discussions unique to SHIFT

Kobayashi: My style of communication with Mr. Tange has not changed since the foundation of the company. Mr. Tange talks with extremely high resolution at regular meetings and at session of the Board of Directors. However, he occasionally uses abstract expressions. Therefore, I make a point of understanding his real intention through communication, instead of taking what he verbalizes literally. My role is to convey Mr. Tange's words to the worksite. In my conversations, I strive to clarify key points to the worksite.

Sasaki: At various meetings, I discuss the summarized points with Mr. Tange. Matters are determined one after another immediately. This agility is unparalleled by ordinary companies and forms the very uniqueness of SHIFT. Its Board of Directors is also well-balanced with outside directors specializing in a diverse range of fields. Internal and outside directors always have vigorous discussions in reference to their respective areas of expertise.

Hattori: At many companies, the sessions of the Board of Directors do not substantially differ from regular meetings. In contrast at SHIFT, the directors have adequate discussions that represent the desirable status of the Board. Their agendas consist only of items that lead to substantial shifts in the company in the medium or long term. Because we adequately exchange opinions with outside directors during each discussion, I believe that effective governance is positively maintained.

Q5 From the viewpoint of directors, why do you think SHIFT has shown this substantial growth?

Never giving up and staying sincere—these are our growth factors.

Kobayashi: We never give up. In the beginning, in the middle, or at the end of each fiscal year, SHIFT continues move forward with greater force and never gives up. This may be why it continues to grow. SHIFT also clarifies the significance of its ambitious goals. For example, the company clarifies why the net sales targets of 100 billion yen and 500 billion yen need to be attained rapidly. This is why each employee can exert individual effort. These efforts by employees are evaluated. Even though exerting individual effort is often referred to as "uncool" these days, it is actually extremely favorable that we all exert ourselves, be evaluated, and become happy. I believe that SHIFT can remain a strong company because this mindset has taken root.

Recently, I have frequently received questions concerning the turning point in the company's growth, but I cannot answer this question. This is because we have turning points almost every year. We continue changing, though not all changes are major, including our entry into the enterprise market, the recruiting of employees experienced in system development, the proposal of DAAE, and the start of our consulting service. I suppose that the accumulation of minor changes may also be the source of growth for SHIFT.

Sasaki: Persons who seek personal growth at SHIFT enter the company, and SHIFT further strengthens their motivation after entry, which encourages them to further develop the company and themselves. I believe that this circulation is the main growth factor at SHIFT. Many employees discuss points for improvement and provide input at meetings by earnestly pursuing the development of the company and personal growth. Not many companies have this culture.

At SHIFT, the egotistic pursuit of profitability is not acceptable. We must please customers by providing the right service and receiving the right reward. We have achieved long-term growth because we have kept in mind that both parties should be in a win-win relationship. "We must have integrity, no matter what."—this is a phrase Mr. Tange often uses. Sincere exertion is properly evaluated within the company, which also raises the evaluation of the company. This recognition in each employee also supports the growth of SHIFT as a company.


Motoya Kobayashi, Director, appointed November 2014

Hattori: Both my previous company and SHIFT are growing rapidly. I believe that such companies have an outstanding model that enables expanded reproduction. Such companies increase sales because they have such a managerial model at their core, earn profit, and make investments toward further expansion. The presence of such a base is extremely reliable. In addition, SHIFT has established an equation and verbally expressed its model. This is why its model is understandable to all members, which enables not only SHIFT but also its group companies to grow together.

Q6 What are your ambitions toward the net sales targets of 100, 300, and 500 billion yen?

Contributing to society and pursuing major goals with trust in ourselves

Kobayashi: The most important point is that SHIFT is needed by society. Unless society needs us, we cannot produce anything no matter what major goals we pursue. This is why I consider it important that we consistently maintain SHIFT's passions and continuous measures while adhering to integrity and sincerity as was mentioned by Mr. Sasaki in response to Q5.

SHIFT deals in a blue ocean market. Whereas this expression may sound positive, on the other side of the coin, it means an untrodden market. Our only option is to trust in ourselves because we do not know the right answer. We would like to create a future for SHIFT, trusted not only by us but also by everyone, by attaining the net sales targets of 100, 300, and 500 billion yen.

Hattori: SHIFT has a managerial model at its core. SHIFT's strength is that this model has been expressed as an equation of high resolution. The recognition that the company is doing good for society as the background seems to be the most important element in attaining major goals. Absolute victory cannot be accomplished without doing good for society.

Growth cannot easily be achieved but may require high energy. To continue burning calories for energy, a sense of mission is required. This sense of mission fosters strong feelings of belonging and solidarity, which cannot be earned with money. I believe that the net sales targets of 100, 300, and 500 billion yen can be attained by further disseminating the recognition that employees are doing good for society and using their sense of mission for motivation.

Sasaki: While doing good for society, SHIFT needs to win as a company in the end. Enhanced training and services for employees will become increasingly more important. I think the ideal will be whether we win by making further contributions to customers and to society through our painstaking efforts to succeed.

As customers and society recognize the value of SHIFT, we will also achieve a sense of accomplishment. To this end, it is important that we learn from each other, continuously question the confronting situation, and confirm that we are headed in the same direction. By repeating these steps, we will definitely achieve the ideal victory.

What messages would you like to send to the persons reading this Integrated Report?

Hattori: SHIFT will become a company with a total market value of one trillion yen. This belief is one of the reasons why I joined SHIFT, which I have never doubted to date. SHIFT is doing actual good for society. By honestly continuing with this style, a total market value of one trillion yen will only be a milestone. We will simply proceed toward this milestone.

Kobayashi: Although people tend to shy away from labor-intensive businesses, SHIFT has broken through such conventions in society. It is not that SHIFT merely intended to do something different, but that it pursued an environment that would please all its stakeholders, including its employees, customers, and investors.

SHIFT doubts the conventional practices of society, carries through what should be done without giving up, and persuades everyone by achieving results. By accumulating this knowledge of persuasion, I believe that SHIFT will continue to achieve further growth in the blue ocean market. I hope you look forward to it as much as we do.

Sasaki: I believe that difficult challenges will lead to further growth and expansion. I think this will be the very key. Please look forward to the future challenges of SHIFT.

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CHAPTER 02 — I — INTENSITY

SHIFT

CHAPTER 02 — INTENSITY

Ceaseless pursuit of the "new value" needed by time and society

We at SHIFT have established an organizational structure that continuously advances by flexibly accepting changes in response to changing times and society, instead of sticking to the process providing services through existing systems.

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034 SHIFT focuses on "four corners"
035 1 — Marketing
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Three "business elements" that support outstanding growth

SHIFT has expanded its business without being bound by the conventional practice of the IT industry, because its founding members had roots in consulting for the manufacturing industry.
At SHIFT, we think, make decisions, and carry through management from three viewpoints, which are the reasons for our continuous high growth. These are referred to as business elements without any of which a high growth rate cannot be achieved.

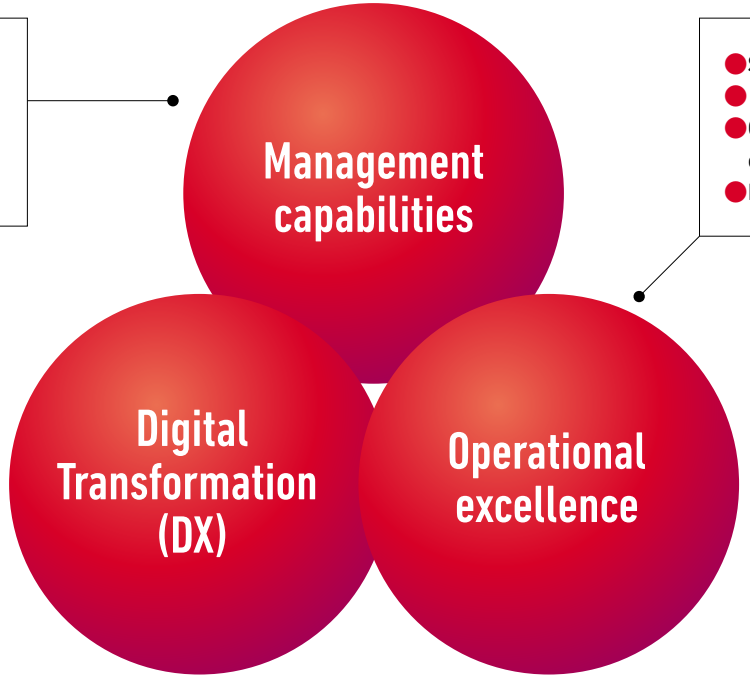
Business elements of SHIFT

Management capabilities

- Consistent **structural and numerical expression** of business
- **Visualization** of managerial figures and identification of the center pin
- High-speed **decision making** and **PDCA cycle**

Digital Transformation (DX)

- Development of **scalable** systems adaptable to outstanding growth
- **Real-time** acquisition of managerial information and **rapid complete survey** and analysis
- **In-house production** that enables **rapid** tuning in accordance with purposes **when necessary**



Operational excellence

- **Systematization** focused on productivity
- **Implementing capabilities** focused on results
- Consistent **establishment of knowledge** that establishes a competitive advantage
- In-depth **thinking capabilities** that go into all details

By thinking, making decisions, and carrying through management at a high-speed, maintaining good balance among the three elements, we have promptly responded to diverse changes.

At SHIFT, we refer to this status as *"heels raised"* because we are ready to start sprinting at any time. This is an indispensable mindset for the outstanding agility that underlies the high growth of SHIFT.

SHIFT focuses on "four corners"

In an Othello game, for example, we cannot win merely by counting immediate discs. The keys are the four corners. The knack is to take these corners. Similarly, we at SHIFT consider that it is important to identify the four corners and expand our area maintaining a good balance. Based on the business elements mentioned earlier, we share the four areas that SHIFT focuses on.

1 Marketing

- Marketing team optimized as an organization
- Capabilities to develop new prospective and penetrate further into customers
- Powerful proposal-making sales

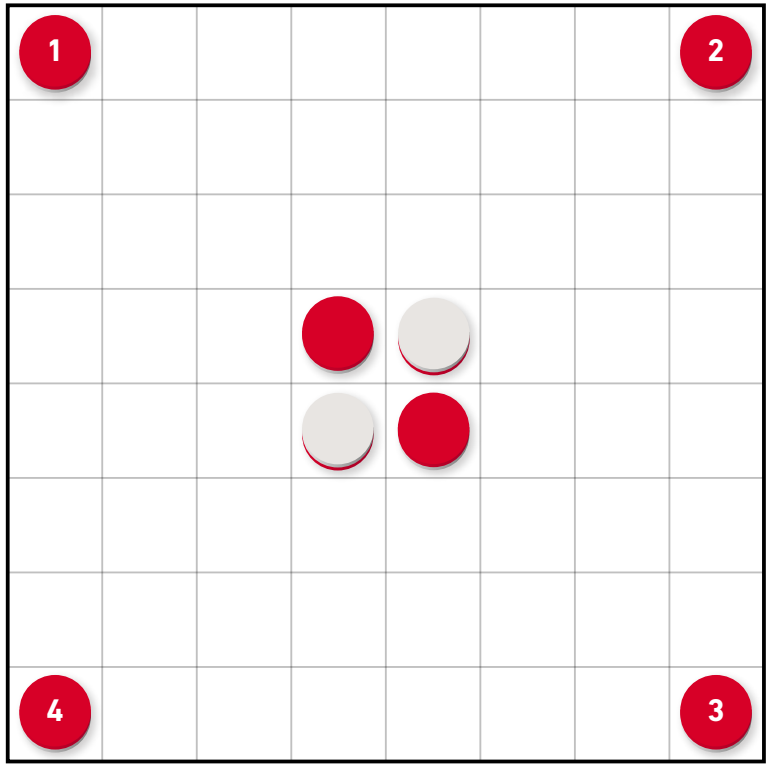
Number of customers

×

Customer unit price

4 M&A / PMI

- Based on a clear standard, we select companies that provide synergistic effect with the SHIFT Group for increasing service and proposal-making capabilities.
- An established PMI method helps companies achieve continuous growth after participating in the group.



2 Technologies

Upgrade the range and depth of technologies × Shift to the mass production of technologies × Develop engineer capabilities

- Maximize outputs by combining the three directions above

Engineer unit price

×

Number of engineers

3 HR / recruiting

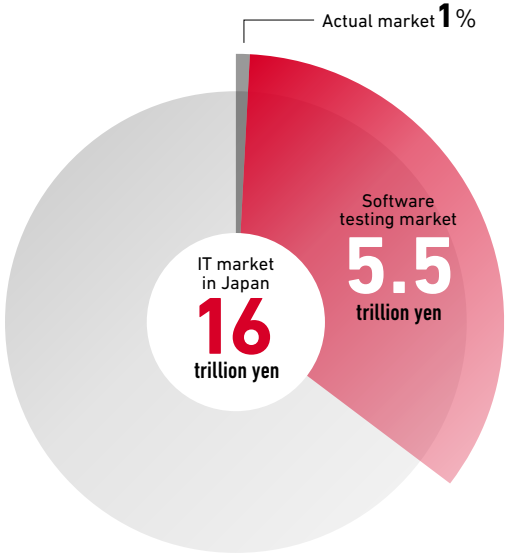
- Strengthen recruiting capabilities and establish an HR platform that achieves lower employee turnover
- HR system that has the maximization of human capital value as the center pin

1 Marketing

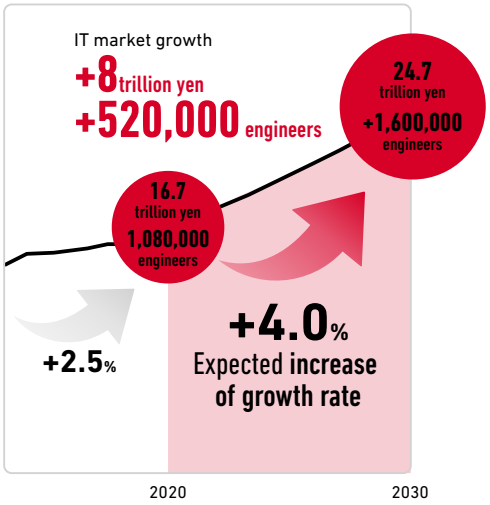
SHIFT deals in a vast blue ocean market that continues growing. To accomplish rapid and large-scale market development, we have shifted from the individual sales phase to an organized sales phase.

Vast blue ocean that continues growing

In a system building project, about one-third of the man-hour of engineers are spent on testing and quality assurance. Therefore, we consider that one-third of the IT market caters to the testing field. In addition, the IT market of Japan, estimated at a scale of 16 trillion yen, has expanded annually in response to the rapid software expansion, with further growth expected in line with the future DX promotion.

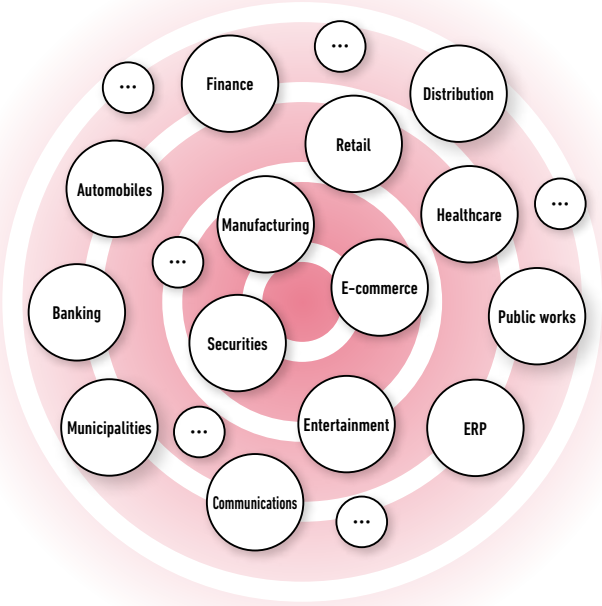


IT investment amount and growth rate*



Catering to all industries

Leveraging our knowledge accumulated to date, we can promote sales activities in any industry. In addition, we acquire competitive advantage by cross utilizing the know-how accumulated in each industry.



COLUMN

Slow progress in division of testing

In the IT industry, development engineers also undertake testing in many cases. The idea of dividing testing from development remains rare. We are promoting activities to improve recognition, because many customers realize the necessity of division and are amazed at the quality of third person testing that cannot be provided by development engineers.

*Data were prepared by SHIFT referring to the *IT Market* by METI, *Trends in Working Age Population* by METI, *Corporate Sales Statistics* by the MOF, *Actual Status for Salary in the Private Sector* by the National Tax Agency, and other information.

Shifting from "individual sales" to "organized sales" through increased marketing capabilities.
Establish systems that enable stable growth with increased sales force toward the net sales target of 300 billion yen

To become top of mind awareness in software testing, our sales team has developed markets with shared philosophy of software testing inherited since foundation. In this process, SHIFT has promoted the division of development and testing thereby accomplishing the following:

- **Improvement of the position of test engineers**
- **Raise of unit prices for test engineers**
- **Increased share of the enterprise field in sales**
- **Improved distribution channels and increased ratio of operating companies**

In the pioneering phase, we have stringently accumulated and upgraded individual skills and knowledge in an approximately 60-member force.

In coming years as the phase of further expansion, we will substantially expand our marketing organization toward the accomplishment of "SHIFT 3000" (a growth strategy aimed at the net sales target of 300 billion yen) and further accelerated growth thereafter.

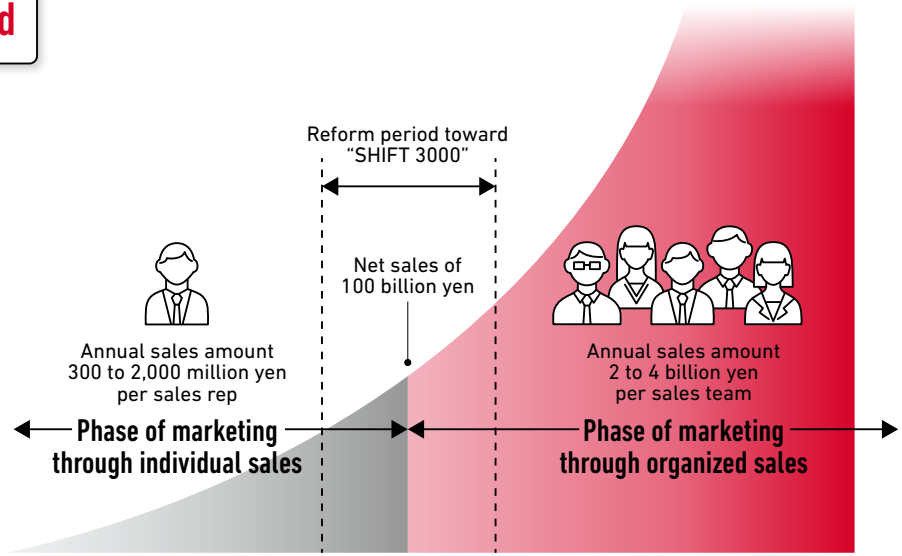
We are in the very phase of systematization to enable marketing activities without compromising the accumulated knowledge quality in an increased sales force.

SHIFT invited Michio Sasaki, the former president of KEYENCE, as director and vice president to lead a reform from a marketing structure based on individual sales to organized sales based on exhaustive systematization and DX.

Develop a structure capable of team commitment by decomposing organized sales into elements

Net sales = Amount of activities × Efficiency × Speed

1	**Exhaustive visualization** Manage the amount of action	Quantify and visualize not only numerical sales figures, but also various activities and results linked thereto. Logically improve the basic strengths.
2	**Establishment of marketing knowledge** Maximize efficiency	Ensure the sharing of information that enhances the team capabilities as collective knowledge, including proposals made, talk scenarios, proposal plans, and examples of issues.
3	**Organized sales** Establish a structure that facilitates 1 and 2	Structural management that incorporates a project sharing system in order to fully utilize the established collective knowledge
4	**Performance-linked appraisal system** System for acceleration	SHIFT has shifted to an appraisal system that enables proper evaluation based on the commitment of the sales force to performance. This has fostered team spirit, while certain sales reps earning more than 30 million yen annually.



Established a structure to manage the amount of action and efficiency by defining the basic strengths of the sales force

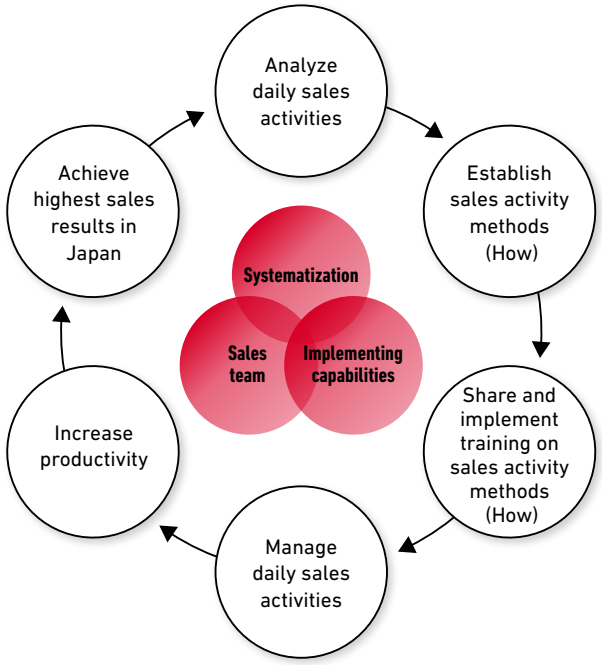
1 Exhaustive visualization

In addition to numerical sales figures, we quantify and subdivide action and results linked to net sales, such as the following:

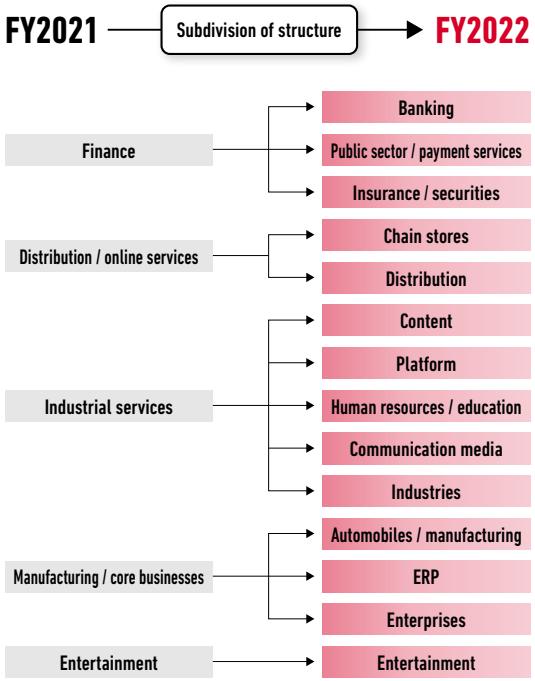
- **Definition of the amount of action**
- **Visualization of skills through marketing exam**
- **Formulation and management of KPIs for marketing activities**

We visualize basic strengths in marketing activities toward skill upgrading.

A good cycle for continuously improving sales achievements



2 Establishment of sales knowledge



SHIFT subdivides the overall structure into units that accelerate sales increase, and each team accumulates knowledge. As a result, the accumulated knowledge facilitates leveraging in individual fields, thereby contributing to increase in the amount of action and sales efficiency.

By shifting to organized sales, improvements have been made in the low resolution of knowledge required for each industry that resulted from the wide range assigned to each segment. The resolution of knowledge was improved through structural reform that increased the granularity of each segment, thereby providing an environment that facilitates leveraging organizational sales. As a result, sales efficiency was also improved, which enables individual sales reps to earn higher net sales per rep compared to before the structural reform.

COLUMN



Advice from the highly experienced vice president

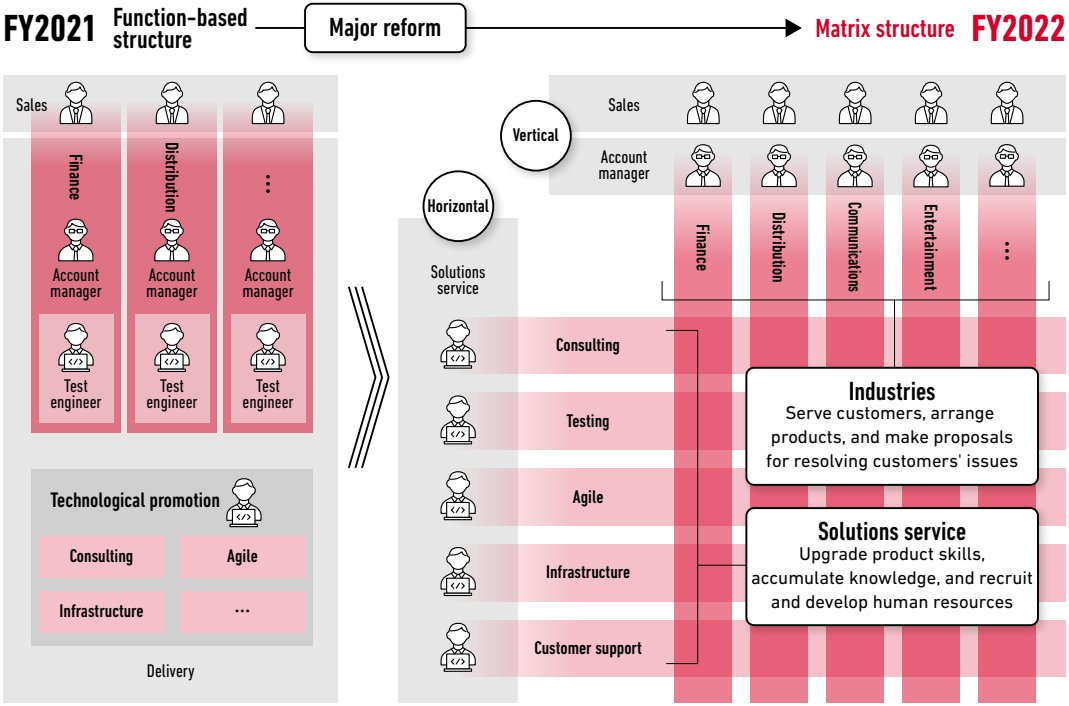
"Doing the basics, in a basic manner, and exhaustively"—to do this, we need a scale for measuring our everyday performance. We accumulate sales activity information in detail in order to maximize our sales achievements, visualize our daily sales activities, and analyze the results and target values to improve our daily activities. This accumulated training comparable to that of athletes lead to our highest sales achievements in Japan.

We accomplish substantial growth by establishing an appraisal system that enables the commitment of each sales rep to work toward maximum team achievement while fully utilizing accumulated knowledge.

3 Organized sales

Whereas we used to assign operators of different roles required in each industry, the horizontal engineer organization that delivers necessary services has enabled the optimization of resource allocation.

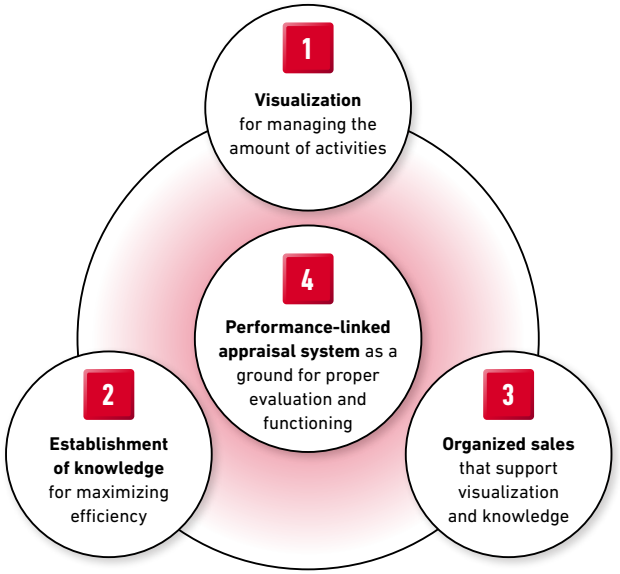
We have also established a sales structure that has a contact unit in each industry, thereby enabling the sales reps to serve their customers, arrange services, and concentrate on making proposals for resolving customers' issues.



4 Performance-linked appraisal system

Following the structural reform, performance-linked benefits have been introduced for sales reps, which enable evaluation based on team performance, instead of inventive-based evaluation that features individual achievements.

Culture of cooperation toward the maximum achievements of sales force has been fostered as a result of establishing a structure that enables the entire force to recognize the linkage between the movements of sales and the movements of management by referring to the coefficients controlled based on the gross profit ratio of an entire project.

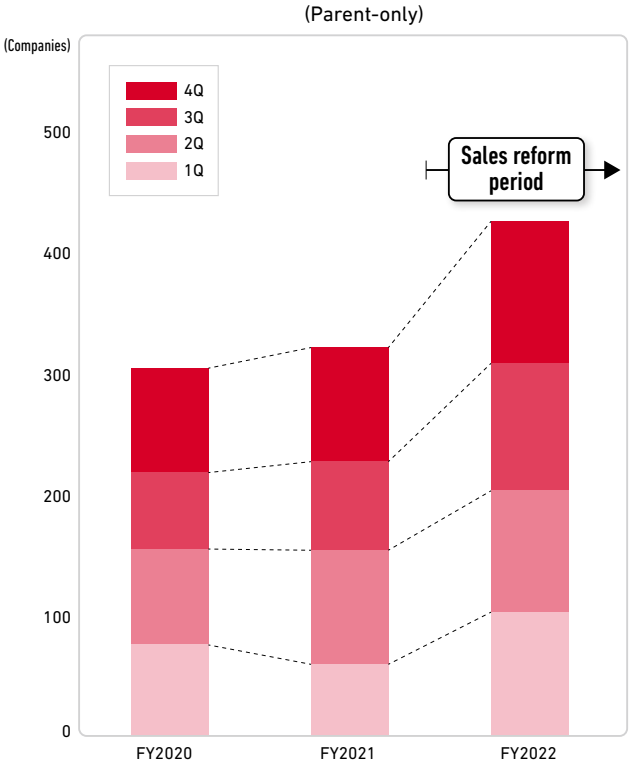


Continuous structural reform for a shift from the market development phase to the business growth phase

In this turning point of our business policy, the respective indicators are showing steady kickoff.

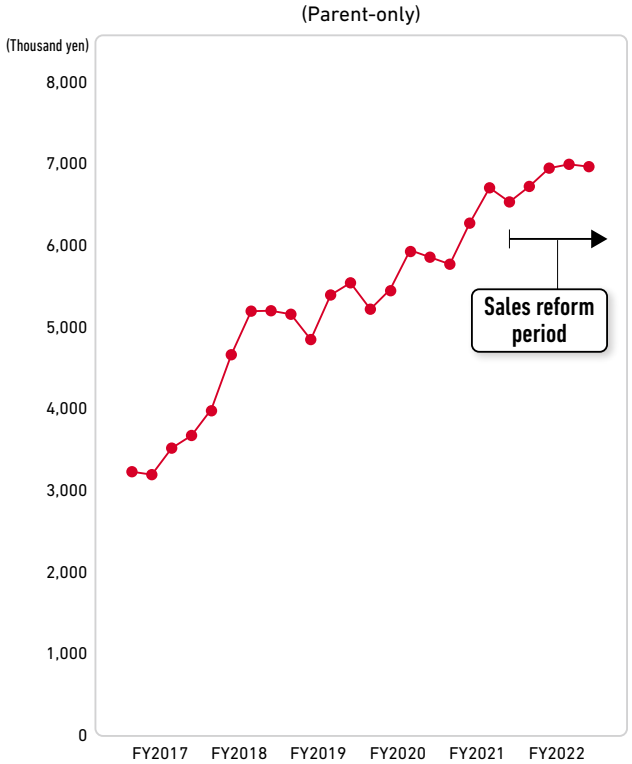
Number of new customers

We have been shifting to organized sales in the reform period toward "SHIFT 3000" since FY 2022. Our total new customers have been steadily increasing.



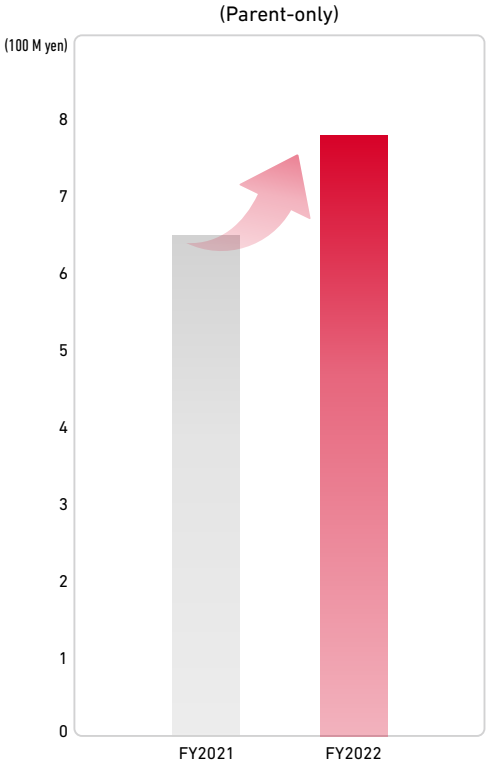
Monthly customer sales unit price

Similarly, our sales unit price has been continuously increasing in the reform period through the promotion of cross-selling sales activities following the acquisition of a new customer.



Net sales per sales rep

Net sales per sales representative have continued to increase after the completion of shift to an organized sales structure, indicating the successful kickoff of the new structure.



2 Three directions of technologies

Technologies at SHIFT has three directions. We pursue the maximum output by combining these directions.

The three directions are indispensable concepts for the enhancement of our service capabilities at SHIFT in its provision of comprehensive services, including not only software testing but also consulting and DX.

1 Upgrade the range and depth of technologies

We upgrade the depth of our technological capabilities in response to the day-to-day advancement of IT technologies and environment and enhance our servicing capabilities irrespective of development methods and systems, such as waterfall development and agile development.

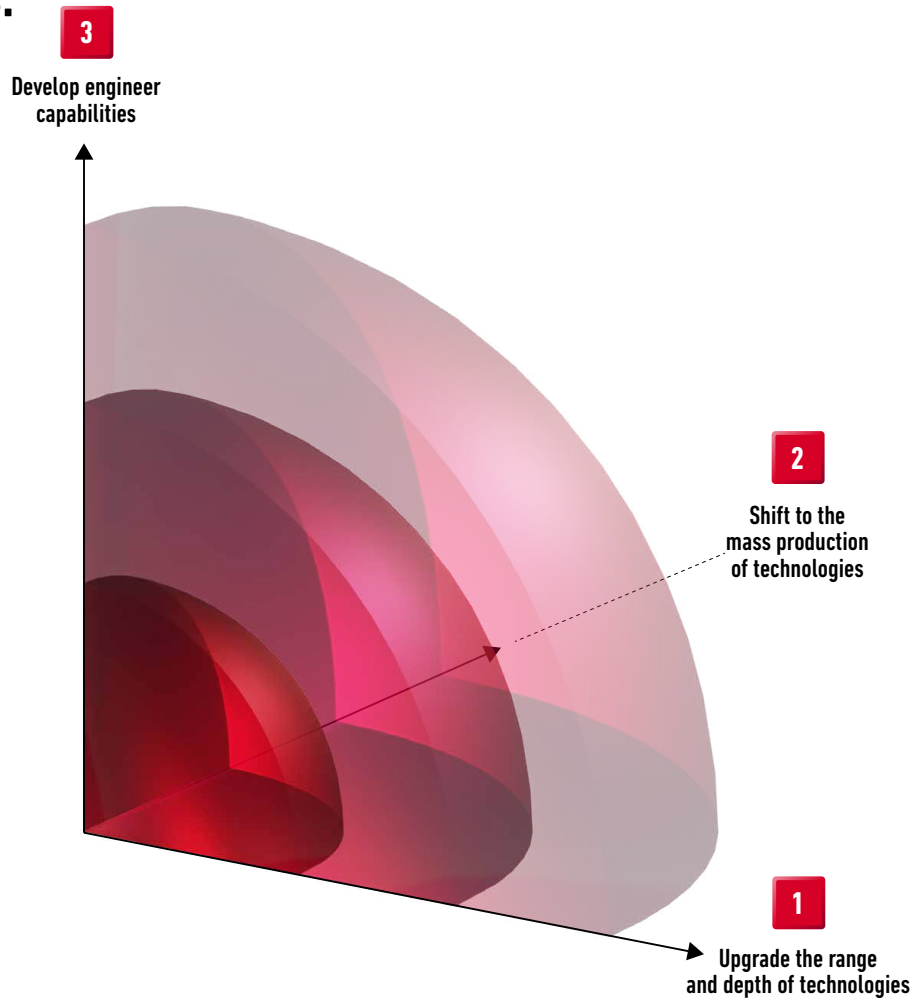
2 Shift to the mass production of technologies

Through the standardization, establishment of knowledge, and systematization of technologies, we enable expansion while maintaining quality without depending on others.

3 Develop engineer capabilities

We identify elements required for the acquisition of technologies and prepare ability exams, skill exam, and training to measure the elements. This enables us to establish the shortest path to the acquisition of technologies.

To increase engineer unit prices, the premise is to expand and upgrade technologies and increase the added value thereof. Our high growth is driven by combining this premise with scalable mass production technologies that do not depend on individual skills, the definition of proper elements, and a structure and culture that promote the capabilities of individual engineers.



1 Upgrade the range and depth of technologies — A broad technological portfolio of SHIFT

By providing quality assurance services in all industries from waterfall development to agile development, SHIFT expands the range of its technologies needed in the upstream and downstream processes of development, thereby serving more than 1,000 customer companies monthly. To this end, we at SHIFT recruit about 2,500 engineers annually for the continuous enhancement of its knowledge and skills in each industry, in addition to its existing R&D and specialty forces.



About 2,500 engineers enter SHIFT annually



Continuous M&A of firms that have technical capabilities



Proprietary technological research and R&D

Support for driving new businesses

Support for DX promotion

Consulting	Support for conceptualization
	Development of new services
	DX criteria diagnosis
Support for state-of-the-art technologies	Low-code development
	Offshore development
	DevOps
	Support for AI / big data
	Analytics
Promotion	Marketing
	PMO

Support for e-commerce website / CX design construction

E-commerce consulting

Consulting / implementation	E-commerce consulting
	Website planning / production
	Website marketing
	Graphic design
	UI / UX and CX support service

Support indispensable for conformity to QCD

Support for quality assurance and testing

Quality warranty	Test planning
	Test design
	Test implementation
	Translation / language quality assurance
	Test automation
	QA promotion / quality evaluation
	Inspection
	PMO (project management / test promotion)

Support for effective means to cope with purposes

Support for development / infrastructure

Infrastructure	Infrastructural construction
	Network
	Cloud
	ERP (SAP)
Development	Development
	Offshore development
Improvement	IT automation (CI / CD and RPA)
	Performance improvement service
	Troubleshooting

Support for reducing operational cost

Support for operational streamlining

Operation	Multilingual help desk
	Security help desk
	Monitoring 24 / 365
	Manual preparation
	FAQ / Chatbot operation
	System / infrastructure operation
Rollout	PC marketing
	Kitting

Support for reducing business incident cost

Security support

Consulting / diagnosis	Security consulting
	Vulnerability diagnosis
	Penetration test
	Stress test

IT support for solutions to business requirements

IT / platform consulting

Consulting	Support for conceptualization
	Development of new services
	DX criteria diagnosis
	Agile development
	Low-code development
	Offshore development
	DevOps
	Support for AI / big data
	Management
Promotion	PMO

Support for HR development to achieve self-running operation

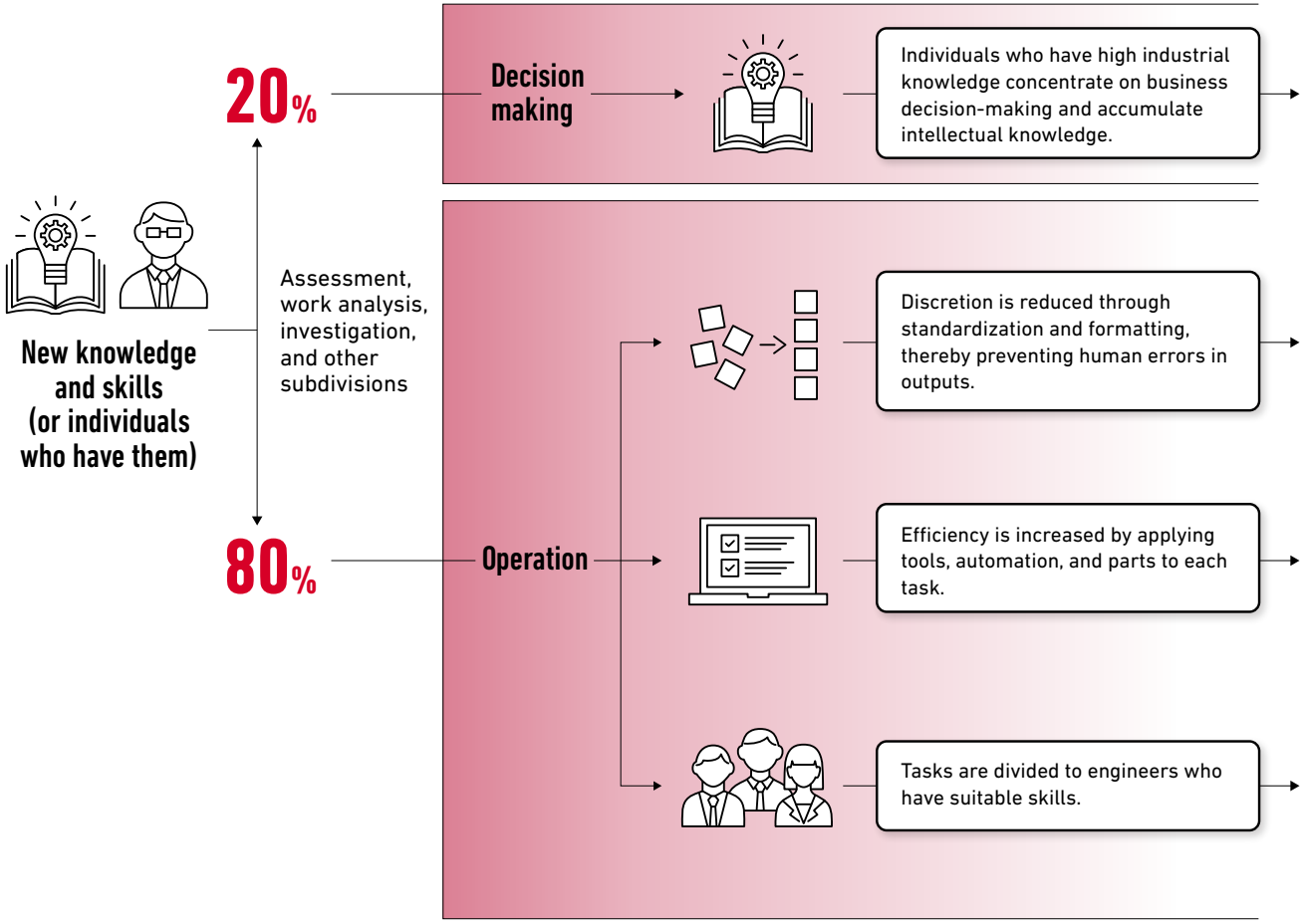
Support for HR development

Concepts	Basics (quality test / RPA etc.)
	Engineering (design / DevOps / UX / RPA etc.)
	Management (strategy / planning / control / CX / agile etc.)

Expand the range of technologies

2 Shift to the mass production of technologies — More uniform and efficient services

"Skills tend to become dependent on individual skills"
If the level and know-how vary depending on the individual in charge, it becomes difficult to provide and enhance services at stable quality. This is why we at SHIFT prevent dependence on individual skills for the mass production of services utilizing the knowledge for technological standardization in the manufacturing industry, where SHIFT has its roots.



The accumulated knowledge is shared to prevent the possession of knowledge by limited individuals.

1. The processes of a target technology are exhaustively decomposed to identify all required tasks in time series, thereby measuring and analyzing the difficulty and workload of each process. At the same time, the quality of achievements is uniformly maintained by reducing discretion in the standardized processes.
2. Efficiency is maximized by modeling operations and applying tools, automation, and parts to each task.
3. Based on the identified difficulty level, the tasks are divided to engineers who have suitable aptitudes.

3 Develop engineer capabilities

Service capabilities are not necessarily improved with technological capabilities and standardization capabilities. Finally, these elements are maximized by "humans" who implement them. SHIFT does not implement any formality training targeted at all employees, except the induction training that immediately follows their entry into the company. Instead, SHIFT has an appraisal system that properly evaluates the achievements of ambitious activities by each engineer. This system generates a favorable cycle that links the enhanced motivation and salary of our engineers to the strengthening of SHIFT's overall technological capabilities and service capabilities.

Before entry

CAT tests measure the aptitudes for software testing

All individuals who seek to enter SHIFT undergo CAT tests. The largest point of the tests is that it measures aptitudes for software testing, such as accuracy, speed, and reading comprehension, instead of knowledge of IT. We only employ individuals who pass the specified marks. Using this technology to decompose required capabilities and formulate tests, we also assess their aptitudes for various other skills.

CAT tests measure the natural aptitudes

CAT COMPUTER AIDED TEST TEST MEISTER

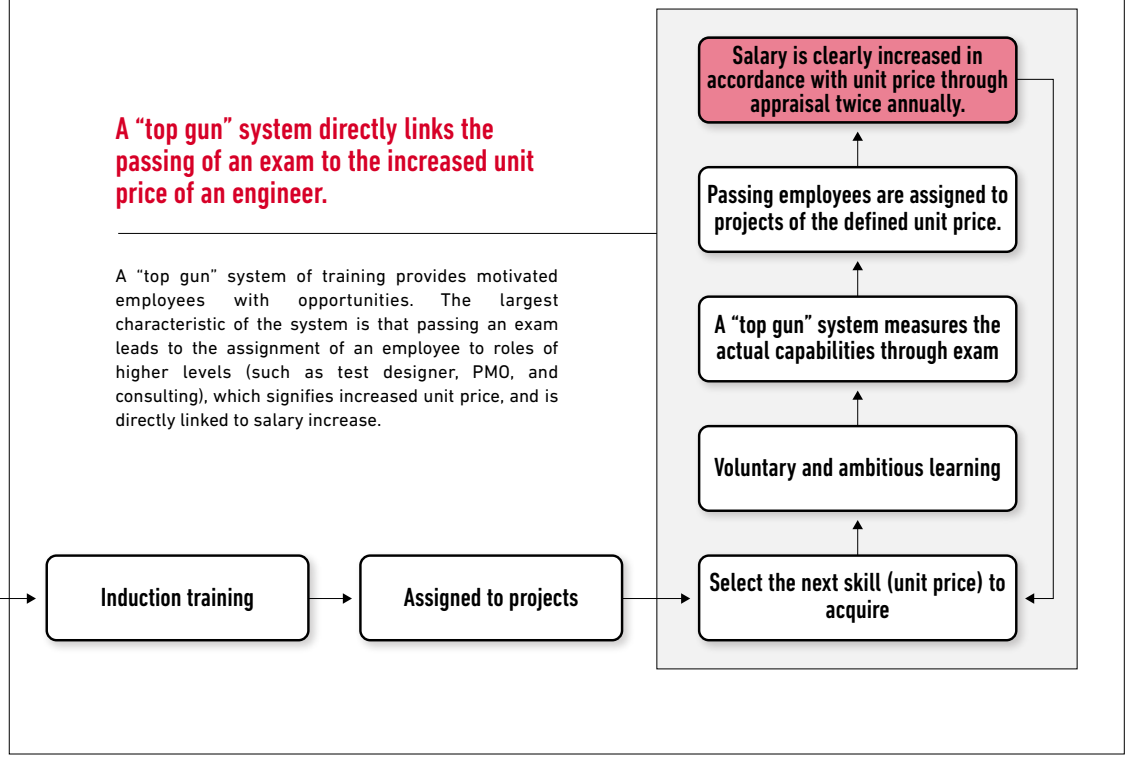
Capability development at SHIFT

We assess aptitudes for software testing through pre-employment CAT tests. We have an environment where each individual is assigned to projects that match their capabilities (and unit prices) after entry into the company. Employees can take an exam that matches the level of a project that they seek to participate in (a “top gun” system) and pass the exam to participate. The passing of an exam also leads to the increased unit price and salary increase of an engineer. Therefore, the system enables engineers to voluntarily and ambitiously pursue skill upgrading.

Engineer capability development system following entry into SHIFT

A “top gun” system directly links the passing of an exam to the increased unit price of an engineer.

A “top gun” system of training provides motivated employees with opportunities. The largest characteristic of the system is that passing an exam leads to the assignment of an employee to roles of higher levels (such as test designer, PMO, and consulting), which signifies increased unit price, and is directly linked to salary increase.



COLUMN Our training system also embodies the SHIFT philosophy

Background of tests developed by SHIFT

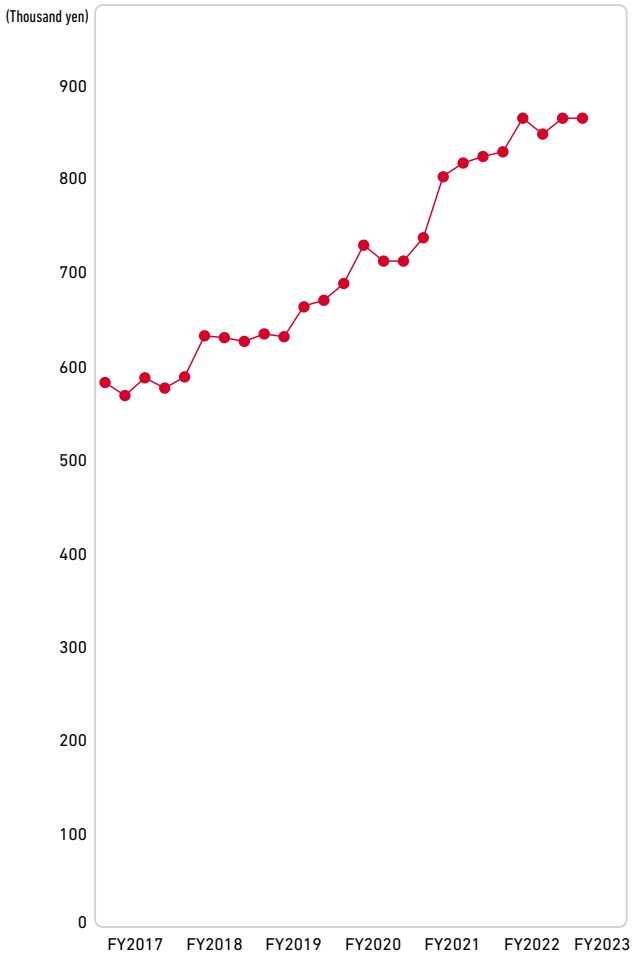
Tange and other founding members had used processes comprising the detailed decomposition, visualization, and standardization of tasks when they were consultants. They introduced these processes into the IT industry and developed them into a system that enables anyone with the aptitude for software testing exercise their abilities. Various tests and systems developed by identifying the minimum elements of capabilities required in each role, and measuring these capabilities as scores are considered to embody the core competence of SHIFT.

By strengthening technologies in three directions, we expanded our project participation into fields of higher added value.

By upgrading the range and quality of technologies that we can provide, we expanded our project participation into the upstream processes of development while substantially expanding our testing fields at the same time.

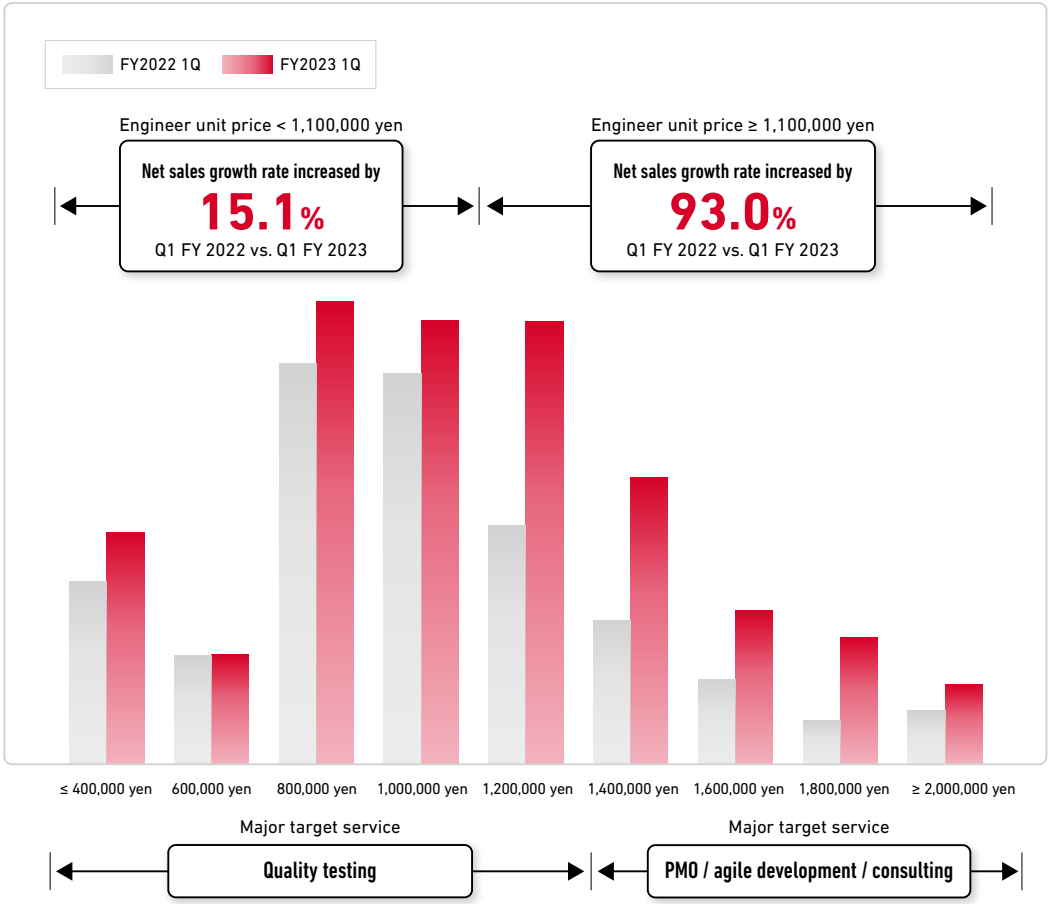
Trends in engineer unit prices

(Parent-only)



Net sales by engineer unit price

(Parent-only)



Engineers in unit price-based clusters indicate that each cluster has achieved growth from last year.

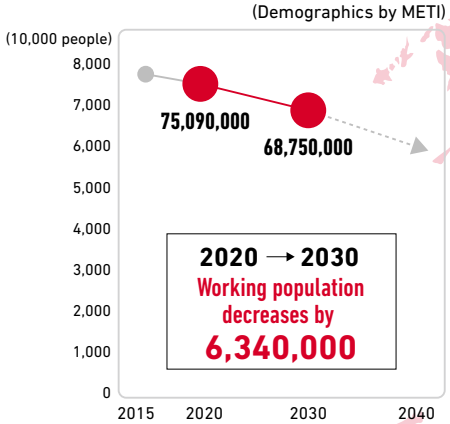
3 HR / recruiting

The population of Japan continues to decrease. Improvement in productivity with DX is essential to maintain the full economic scale of Japan, which requires further increases in IT human resources.

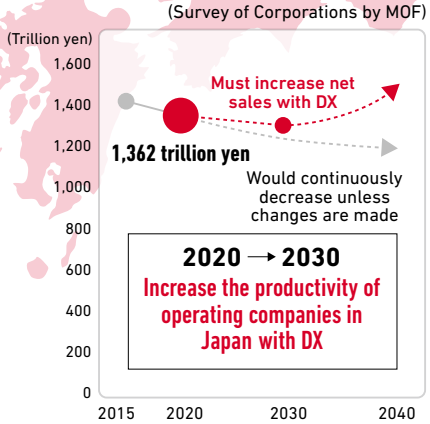
The working population of Japan continues to decrease. The total net sales of operating companies in Japan would decline unless certain changes are made. Therefore, it would be essential to improve the productivity of operating companies in Japan with DX. However, there is a substantial shortage in IT human resources in Japan to enable this. SHIFT leads the resolution of this obstacle lurking in the IT industry.

IT human resources in Japan

Decreasing working population

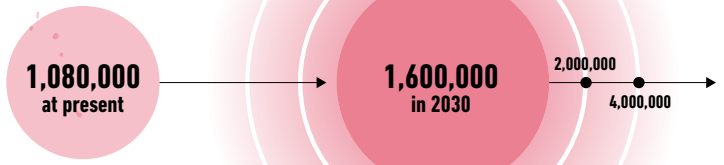


Total net sales of corporations in Japan would decrease unless changes are made



We must remove the obstacles to growth in the IT industry and further increase IT engineers in Japan.

IT population in Japan



SHIFT is a leading company that increases IT human resources.

- ☑ Break through the multiple subcontracting structure, a structural problem in the IT industry
- ☑ Improve the treatment (salary) of engineers to increase participants
- ☑ Pursue the working environment and sense of fulfillment for engineers
- ☑ Substantially increase IT engineers who promote DX

Verify the effect of proactive investment in human capital based on LTV and continuously pursue the upgrading of HR measures

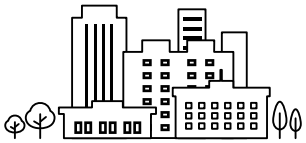
SHIFT's concept of human capital management is to make investments for maximizing the lifetime value (LTV) generated by engineers as human capital throughout their service at the company. We clarify the target of investment by developing formulas and decomposing LTV into KPIs in order to quantify return on investment. This system enables us to mainly invest in recruiting, the improvement of employee satisfaction and to provide inputs based on the quantified effect of the investment on the actual business growth into HR measures.

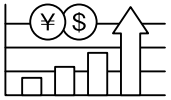
SHIFT's concept of human capital management

By regarding **engineers** as human capital and **making investment in increasing the overall workforce and establishing an environment that facilitates their work over many years**, we aim to **maximize LTV** as profit (total sales amount) generated by engineers throughout their service from entry to retirement.

Concept of LTV







LTV = **1 Number of engineers** × **2 Estimated length of service (anticipated value)** × **3 Value creation power of each individual**

Estimated amount of profit generated by each SHIFT employee throughout their service at the company through HR development

Number of engineers who generate net sales and profit

KPI

Total number of engineers

- Engineers entering SHIFT
- Engineers leaving SHIFT
- Engineers at SHIFT's partners

Length of service and business contribution by engineers at SHIFT

KPI

Employee turnover

- Engagement (sense of fulfillment, salary, and colleagues)
- Satisfaction with appraisal
- Event participation

Amount of profit generated by each engineer

KPI

Gross profit margin

- Engineer unit price
- Overhead costs
- Customer satisfaction
- Engineers passing top gun tests

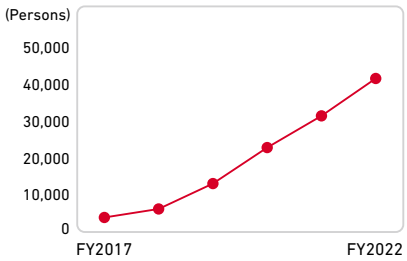
1 Number of engineers (1) — To become a company where most engineers in Japan gather with a sense of fulfillment

Because SHIFT aims to establish an attractive environment for engineers, many engineers gather in SHIFT with low employee turnover. The origin of SHIFT's HR measures is to enable employees to work with a sense of fulfillment and to maximize human capital.

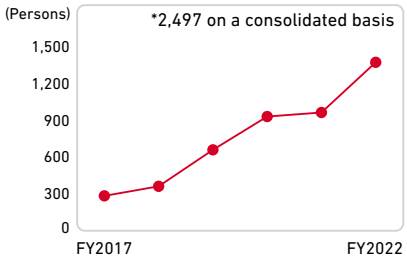
Population increase = outstanding attractiveness that strengthens SHIFT's recruiting capabilities

People gather in a nice city. We exhaustively announce our attractiveness in the recruiting process to gather many engineers. We aim to become a company like where residents willingly participate in city development to make it larger and more affluent.

Applicants (Parent-only)



Passing employees (Parent-only)





Infrastructure for maximizing human capital

HR system network that maintains comfortable living

We examine the roots of humans, categorize the five human needs in accordance with Maslow's hierarchy, and continuously monitor the excess or deficiency of HR systems and measures.

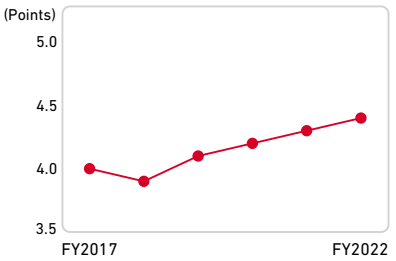
Communication network that leaves no one behind

We formulate guidelines for on-boarding time in contact with the company and with colleagues and promote the PDCA cycle.

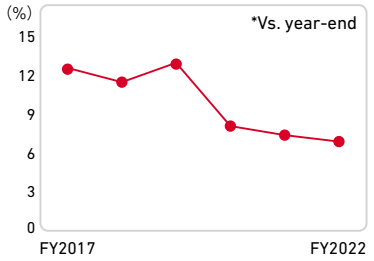
Reduced outflow = higher retention achieves lower employee turnover

We measure employee satisfaction and analyze information linked to the leave of employees. We provide the resultant inputs to HR measures and continuously promote the PDCA cycle, thereby reducing employee turnover.

Employee satisfaction (Parent-only)



Employee turnover (Parent-only)



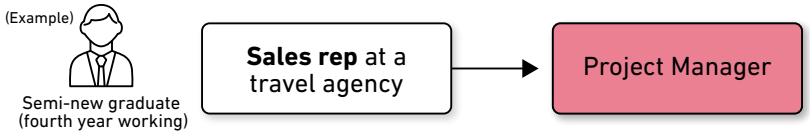
1 Number of engineers (2)

SHIFT is a company where diverse human resources gather irrespective of age, gender, or country of origin.

Because SHIFT visualizes and defines aptitudes and abilities required for each of the subdivided tasks, human resources are able to fully exercise their strengths irrespective of their backgrounds, including employees without experience in IT, expert engineers, project managers, consultants, foreign employees, those from distant regions, and elderly employees.

Appointed without experience — Recruits exercise their abilities in positions appointed without experience

The recruiting activities that measure aptitudes enable employees without experience to exercise their abilities in positions appointed without experience. Because we proactively appoint recruits from other industries, such as teachers and store staff, diverse human resources exercise their abilities at SHIFT.



Employment of disabled persons — Exercising abilities in specialty fields based on the decomposition of tasks

Owing to the work structure based on the decomposition of tasks as SHIFT's core competence, all persons can find jobs that maximize their strengths.

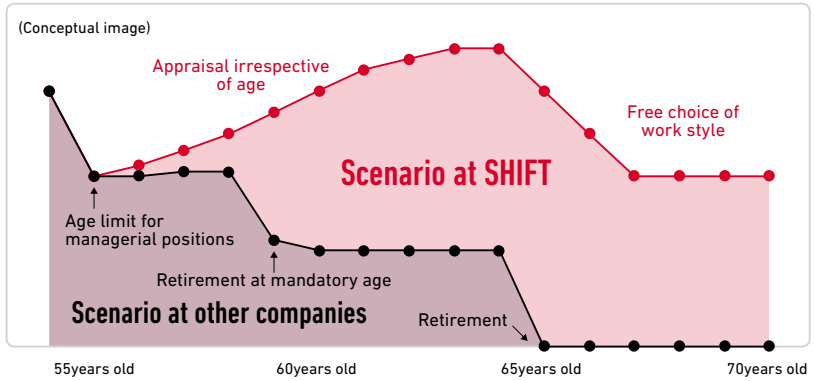
Actual employment rate	Retention rate	
2.5%	88.1%	80 tasks in 28 departments 67 employees in the business support department

FY 2022 results

We at SHIFT also create jobs that create connections between people, such as support for artists and a flower-growing project that handles the cultivation to the presentation of flowers.

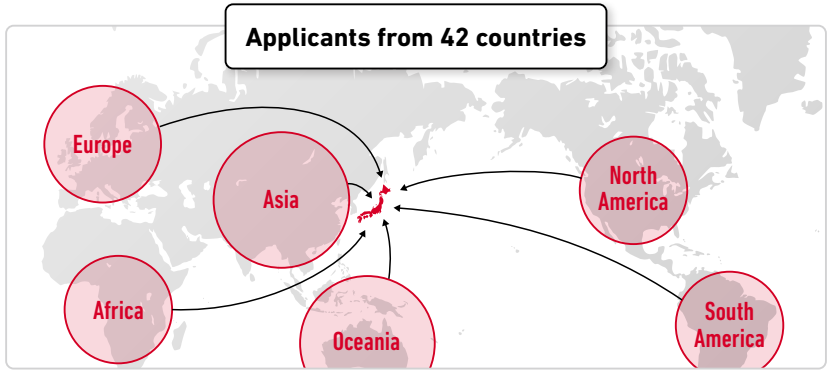
Appointment of elderly human resources — Rest assured for lifetime annual income with the mandatory age set at 70 years

Expert human resources enter SHIFT after working in the IT industry and consulting services because SHIFT provides places where they can vigorously work while leveraging their expertise.



Foreign employees — High-performing engineers gather from across the world

We have also started recruiting foreign engineers. We have about nearly 500 applicants annually (as of the end of FY 2022).



2 Estimated length of service (1)

We focus on "individuals" and identify fields where each human resource can achieve their potential from all perspectives.

To maximize the value of human capital, we collect and analyze 450 information items concerning a sense of fulfillment, salary, and colleagues and establish an environment where they can concentrate on work, thereby promoting the growth of individuals.

Exhaustive understanding of individuals

Anatomizing the status and activities of each individual using Hitolog (human resource log)



Hitolog is SHIFT's proprietary human resource management system

To have all engineers feel happy working at SHIFT, we utilize all information ranging from the work status of employees to work style, hobbies, and orientation.

450 attribute information items of individuals

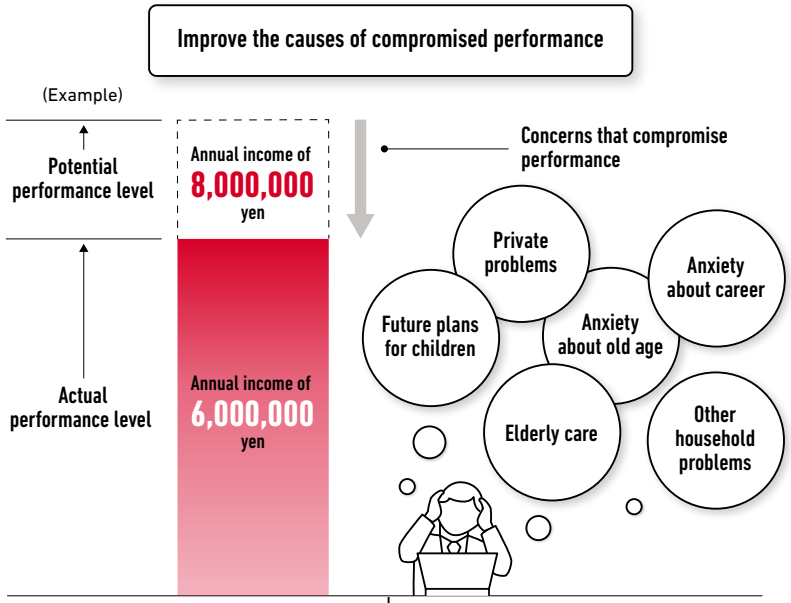
Satisfaction	Level of satisfaction with a sense of fulfillment, salary, and colleagues
Annual income	Present annual income compared to the individual's market value; annual income and career status in five years
Employee satisfaction (ES)	Whether ES is high and whether there are any low points in ES
Orientation	Orientation of the individual's growth whether the individual is a passionate type or steady type
A sense of fulfillment	A point where the individual feels the largest sense of fulfillment; points that the individual emphasizes in work style
Stress	Personality of the individual; a status that stresses the individual; stress level of the individual

The president and the director in charge grasp each individual in detail.

Elimination of obstacles

Tuning of working environment based on the grasped condition

We improve the performance of each individual when it is compromised by negative points of interest, such as concerns outside of work.



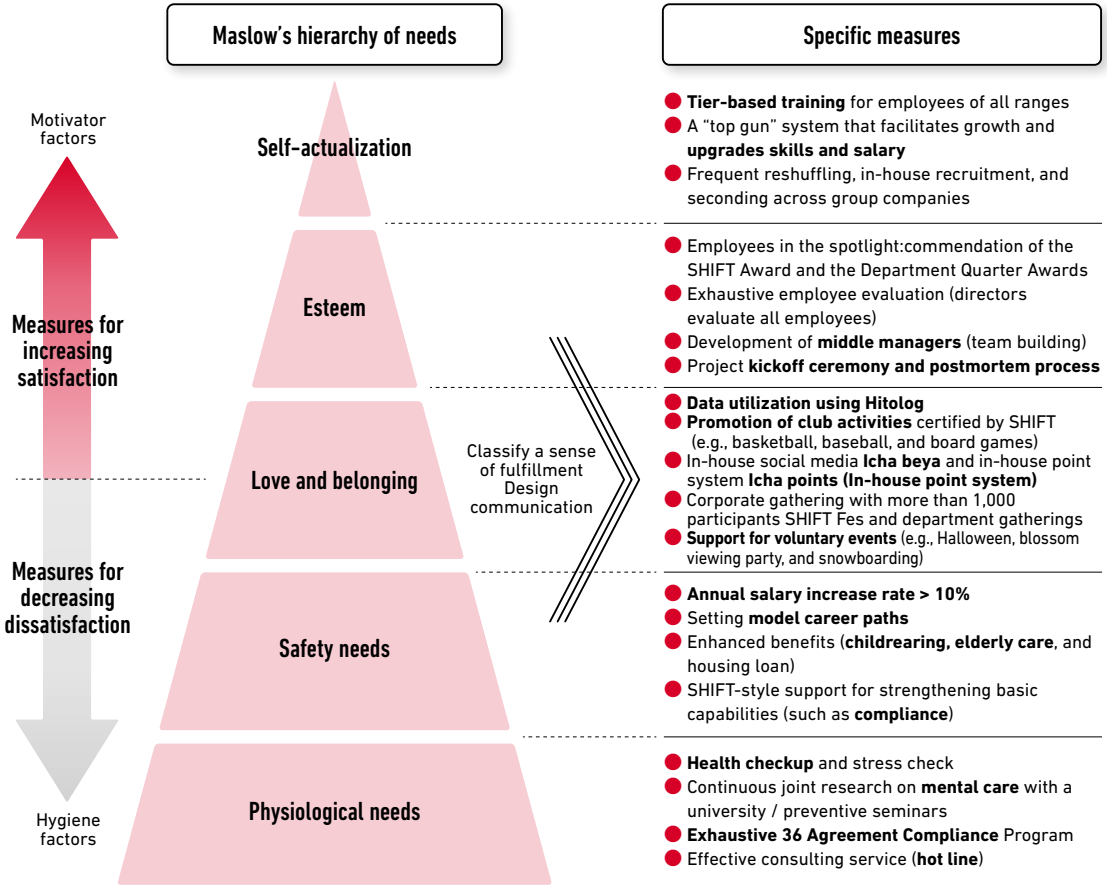
The manager grasps the condition of each individual and provides support.

2 Estimated length of service (2) — SHIFT's concepts of HR systems and measures

Because human resources of diverse backgrounds gather at SHIFT, we decompose the needs of individuals to design our HR systems and measures.

We clarify the aim and rationale of HR measures based on psychology.

Based on Maslow's hierarchy of the five human needs, we incorporate mechanisms that resolve the hygiene factors of each individual as well as mechanisms that motivate them into our systems and measures. In this way, our systems are designed to provide exhaustive solutions that cater to the needs that each employee would like to satisfy in accordance with the hierarchy, thereby achieving intended planning and operation for from corporate events to intra-department communication. With these platforms, we foster an environment that supports sound mutual communication, thereby promoting positive engagement.



Analysis of expectations upon entry and reasons for leaving

Expectations for SHIFT upon entry

No.	Category	Points
1	Annual income	Maintains **annual salary increase rate of approx. 10%**
2	Future prospects	Has the **largest market share** for testing business **in the industry**
3	A sense of fulfillment	**Supports the quality** of software in Japan
4	Growth prospects	Maintains annual **growth rate of approx. 150%**
5	Growth prospects	Aims at becoming **a company** with net sales of 100 billion yen and **1 trillion yen**

We periodically check that the company designs employees' expectations for SHIFT upon entry, that adequate systems and measures that match purposes are implemented, and that such measures reach employees without excess or shortages.

Analysis of reasons for leaving

No. in society(*1)	Reasons for leaving company	No. in SHIFT
1	**Did not feel a sense of fulfillment**	**9**
2	**Salary was low**	**Below 10**
3	**Doubted the future prospects of company**	**Below 10**
4	Human relationship was unfavorable	4
5	Lengthy overtime, holiday work, and other hours at work	**Below 10**
6	Dissatisfied with the appraisal/HR systems	8
7	Could not further develop myself or recognize further development of myself	10
8	**Corporate culture did not match me**	**2**
9	**Had health problems**	**3**
10	**It was not the work I wanted to do**	**1**

We analyze the reasons for employees leaving our company and perform fixed-point observation for any gap in the expectations of employees for the roles to be fulfilled by the company. In this way, we achieve a reduction of employee turnover and the improvement of satisfaction.

*1 Addition made by SHIFT to the survey below
https://corp.en-japan.com/newsrelease/2019/19432.html

3 Value creation power of each individual

Path from recruitment to development and active exercising of capabilities

SHIFT's core competence is to identify not only recruits with experience and knowledge but also those with promising aptitudes. In addition to experienced mid-career employees, SHIFT accelerates the recruitment of new graduates and employees without experience in IT, thereby developing human resources who can actively exercise their capabilities.

CAT tests with a pass rate of only 6%

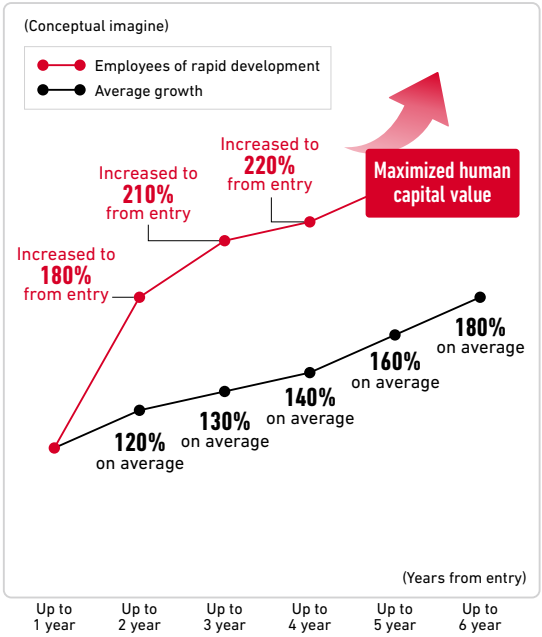
We only employ human resources who pass the tests for measuring aptitudes, in addition to experience and knowledge. By inputting SHIFT's know-how into such human resources with aptitudes, it becomes possible to develop their capabilities much more rapidly after they enter the company. The human capital value of both experienced and inexperienced recruits is maximized through these processes.

CAT COMPUTER AIDED TEST TEST MEISTER

"Top gun" system

The system provides an environment for development to employees willing to make challenges, instead of forcibly placing all employees in a uniform environment. The system enhances the value creation capabilities of such employees and conveys the importance of making challenges to other employees. The "top gun" system achieves a good cycle of enhancing not only the engineer skills of employees but also their awareness and motivation.

Increase in annual income over years from entry



161 new graduates

400 semi-new graduates

1,566 participants

Total unit price increase: 14,950,000 yen / month

Years from entry

FY 2022 results

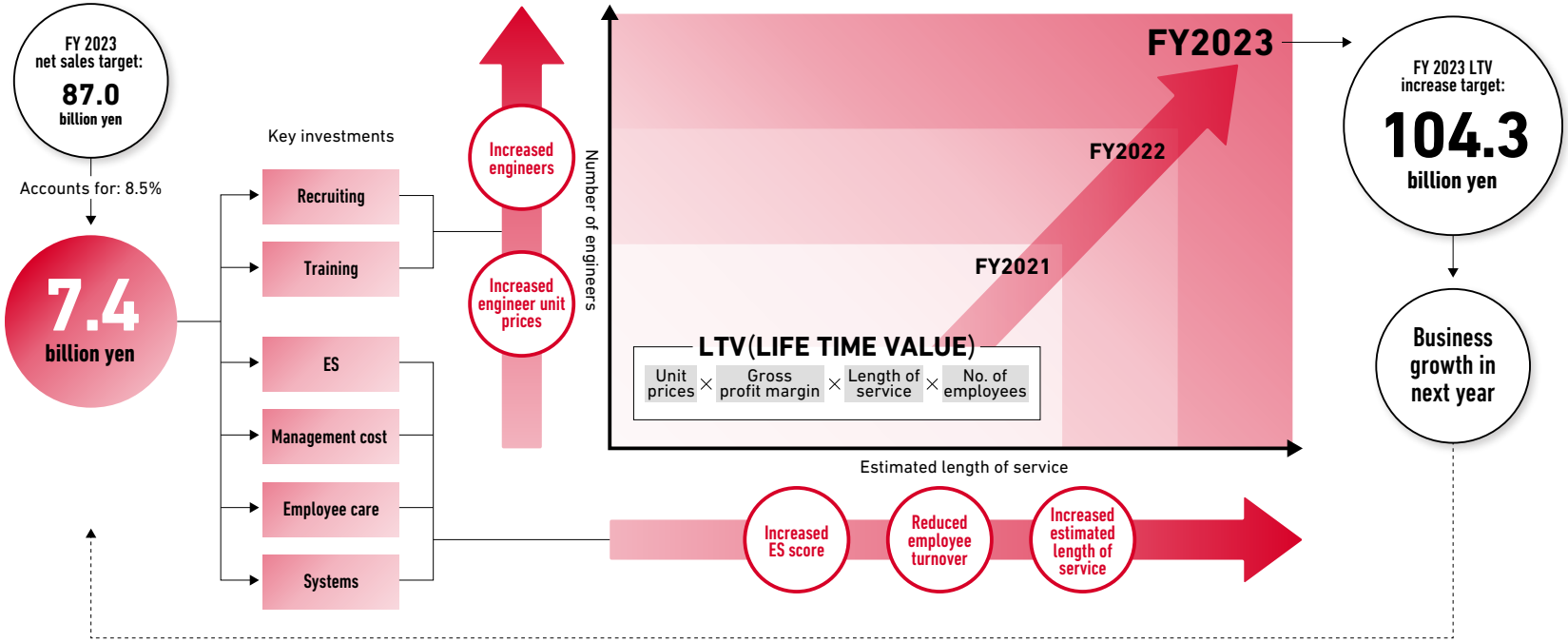
CAT tests | Inexperienced recruits → "Top gun" system → Participate in projects of larger scale and higher level → Maximized human capital value

Maximize LTV through proactive investment in human capital

SHIFT's human capital management clarifies the actual effect of investment in human capital on business growth for corporate management. In FY 2023, SHIFT plans investment in human capital of 7.4 billion yen, which accounts for 8.5% of its net sales target, at a standard substantially higher than that of other companies. This leads to an estimated 104.3-billion-yen return for LTV, which is considered to be an extremely efficient investment. By establishing an environment where each employee can develop and feel happiness, SHIFT also achieves business growth. It is important to generate this favorable circle.

Proactive investment toward maximized LTV

To achieve maximized LTV, SHIFT plans to invest 7.4 billion yen on human capital in FY 2023, which accounts for 8.5% of its annual net sales.

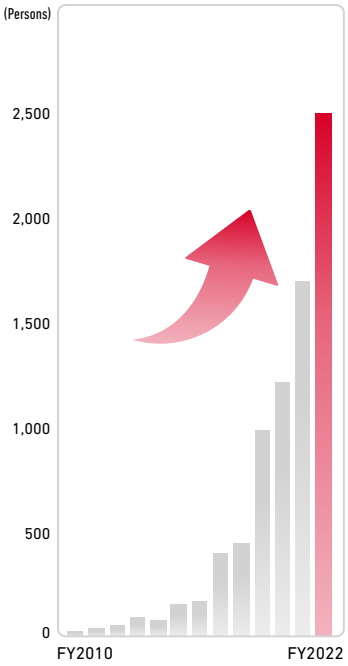


Substantial increase in each component that comprises SHIFT's human capital value

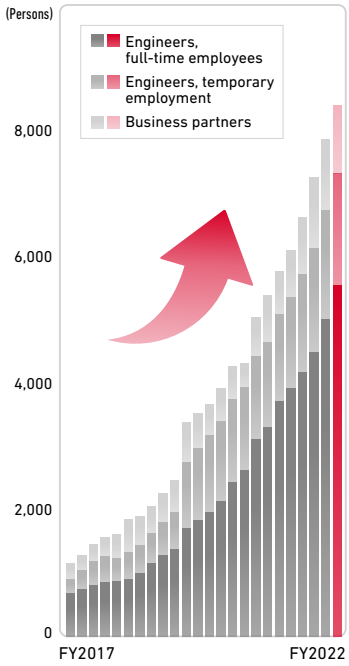
SHIFT visualizes each component and achieves the reproducibility of a favorable cycle: fostering attractive corporate culture and ultimately strengthening recruiting capabilities, establishing an environment that rapidly promotes HR growth and increasing unit prices, and improving employee satisfaction to reduce employee turnover.

1 Number of engineers

Number of recruits
(consolidated)

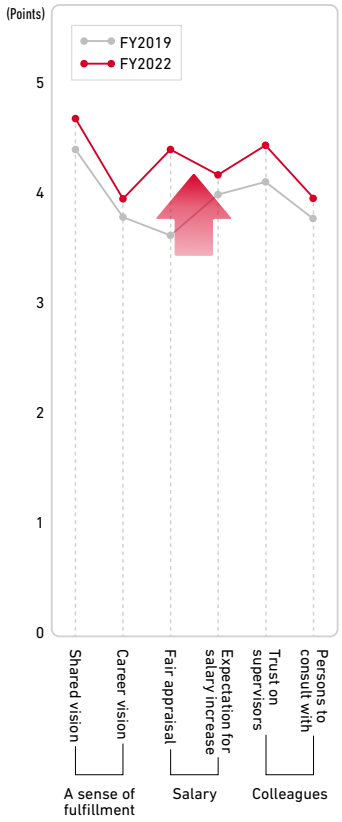


Number of engineers
(consolidated)

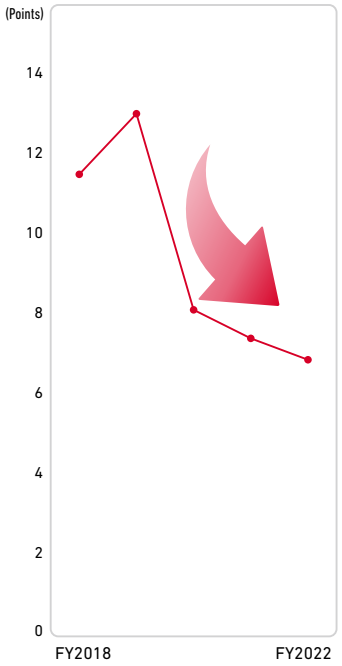


2 Estimated length of service

Employee satisfaction
(Parent-only)

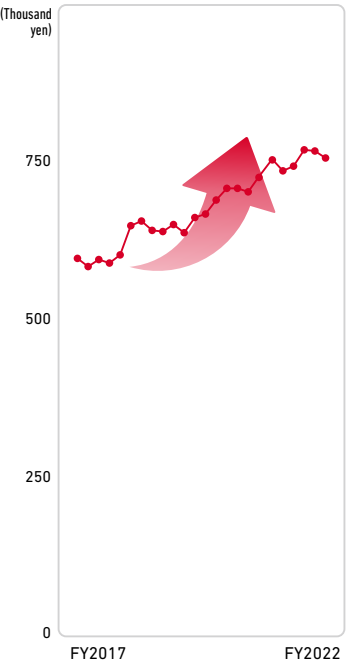


Employee turnover
(Parent-only)



3 Value creation power of each individual

Trends in engineer unit prices
(consolidated)



Non-conventional HR for the new era



YOSUKE SUGAHARA

Senior Executive Officer and Director of Human Resources Division

Participated in SHIFT in 2008 after gaining experience consulting in the manufacturing industry. When the full-scale software testing service started, handled consulting for the establishment of the QA force for a major website production company. Subsequently, after working to launch a new business and serving as an executive officer in the management of business divisions, he now manages the HR area of the entire SHIFT Group.

Q1 — What is the characteristic of HR at SHIFT?

The viewpoint of management and the viewpoint of worksites strengthened HR.

Sugahara: To begin with, President Tange places extreme importance on human resources. He is confident in his approach to human resources from a managerial viewpoint and implements measures from diverse angles for recruiting and internal HR, which are probably unparalleled by any other companies.

Since participating in SHIFT in 2008, I have directly handled software testing projects at the worksites, pursued the expansion of the software testing service while serving customers, and worked as an officer in the management of business divisions.

In 2018, I became in charge of HR with the missions of establishing a non-conventional HR structure, promoting the relevant measures, and substantially accelerating the recruiting process by leveraging my knowledge of the worksites of the testing business because it was considered important to further strengthen the HR Department for further business growth.



Q2 — Why does SHIFT have competitive HR?

Sugahara: At many companies, HR measures are implemented and the execution of such measures often becomes the goal. In contrast, SHIFT sets the final goal of all HR measures at the contribution to business growth. SHIFT's characteristics are the exhaustive numerical expression of its business growth structure and the scientific analysis of its contribution made through HR measures.

This is made possible because several other leaders of the HR Department, including myself, have an operational background. We promote HR measures and structuring based not only on Tange's management philosophy and methodology but also on the understanding of opinions from the worksites. I suppose that SHIFT's high competitive advantage derives from the viewpoint of management and the viewpoint of worksites in the HR Department, combined with specialists in HR.

Q3 — Why is SHIFT able to boldly invest in recruiting?

Sugahara: At SHIFT, we have equations for calculating the lifetime value (LTV) of each employee, which represents the estimated profit to be generated throughout the length of service, and the cost per action (CPA), which refers to the recruitment and development of the necessary human resources, as part of the numerical expression of the business structure. As we disclosed in the announcement of financial results, we have equations for calculating the estimated sales and profit growth from the increase in recruits. These equations allow us to predict the future with detailed computations of the adequate recruiting costs and training costs per capita. Based on the present LTV and CPA data, we have determined that sales and profit are expected from substantial investments in recruitment. We have also established a structure to increase customers in the vast market of 16 trillion yen. This is why we boldly accelerate the process of proactive investments in recruitment.

Q4 — Why does SHIFT continue recruiting more than 2,000 human resources annually?

Sugahara: By continuously recruiting many human resources, persons with a diverse range of knowledge and talents gather at SHIFT. Our human resources are very diverse, including personnel with development skills of the highest class in Japan, former athletes who represented Japan, and e-sports players competing in famous tournaments. Each individual has strong points, which generate substantial power when combined. When persons with different knowledge and talents collaborate with one another, their respective strong points are further enhanced. This is why SHIFT emphasizes recruiting many persons, despite the overall shortage of IT human resources.

Q5 — What does the HR Division of SHIFT think about the shortage of IT human resources?

Sugahara: The estimation by the Ministry of Economy, Trade and Industry reported in 2019* suggests that there will be a shortage of about 800,000 IT engineers by 2030. Furthermore, With public interest in the promotion of DX growing in recent years, the need for IT human resources seems to have further increased.

The overall population of Japan took a downturn in 2011 with the working population decreasing accordingly. Under these circumstances, IT will play an important role in the maintenance and expansion of social and economic activities of Japan.

While there are 1,080,000 IT human resources in Japan, SHIFT proactively recruits human resources from other industries. SHIFT can do this (1) because it has a system to identify aptitudes in inexperienced persons, (2) because its training system comprises the essence to facilitate the growth and participation of personnel, and (3) because SHIFT has established an environment where personnel can achieve a sense of fulfillment.

The IT industry will become a core industry in the future. This is another reason that IT human resources must be increased. Considering that in the near future about 4,000,000 IT human resources will become necessary, we recruit many persons by establishing an environment and a set of systems that support diverse human resources, including the opening of sites in regions other than the metropolitan area and other large cities, as well as the employment of elderly and foreign human resources. We not only think about SHIFT but also have an acute awareness that our mission is to increase IT human resources of Japan as a whole.

*Survey on Supply and Demand of IT Human Resources of March 2019
https://www.meti.go.jp/policy/it_policy/jinzai/index.html#p05
https://www.meti.go.jp/policy/it_policy/jinzai/houkokusyo.pdf

Thinking through HR measures for engineers more than other companies in Japan

Q6 — What ideas have you implemented for recruitment?

Sugahara: For example, SHIFT has implemented HR measures that no other companies have, such as introducing video interviews and promptly issuing unofficial job offers. Such measures may seem strange at first. However, our measures are based on fundamental insight. Is it reasonable to have two or more in person job interviews? Is it really necessary for applicants to explain the same ideas to different interviewers in each interview? Our video interviews were started through a review of these fundamental elements. SHIFT's HR Department doubts the conventional practice and pursues the essence based on which we conceptualize new HR measures.



Highest senses of fulfillment in SHIFT employees

- Recognition of **contribution**
- Sense of **accomplishment**
- **Salary** increase
- Showing **appreciation**
- Having **discretion**
- Giving **praise/recognition**



Overall satisfaction rose in the employee satisfaction survey

Q Expectations upon entry into SHIFT have been satisfied

FY2019 **3.59**/6.00

FY2022 **4.06**/6.00

Hitolog is SHIFT's proprietary human resource management system

The Hitolog human resource management tool is used for the centralized management of employee information and consists of about 450 items and head shots. Hitolog provides the driving force for fully achieving the potential of each employee by supporting HR management focused on individuality, even though the number of employees increases by more than 2,000 annually.

Q7 — Employee turnover has been reduced while promoting rapid recruitment. How is this possible?

Sugahara: SHIFT considers a sense of fulfillment, salary, and colleagues as the three pillars of a work environment where employees want to work over the long period.

The points where individuals feel a sense of fulfillment vary. This is why SHIFT visualizes the points where each employee feels the greatest sense of fulfillment. Based on these points, each manager adequately understands team members, communicates with them, and assigns them to missions.

Employees are fairly evaluated in a highly transparent appraisal system based on motivated work and accomplishments. As a result, the annual salaries increase at a rate of about 10%.

Regarding the last factor of colleagues, we have substantially fewer occasions of colleagues exchanging concerns and submitting complaints in the new work style with teleworking compared to the time when employees came to office every day. Therefore, we sponsor many internal events aimed at fostering ties across departments, in addition to members in the same department or operation, as well as club activities with members who have the same hobbies.

Additionally, SHIFT employs Hitolog, a proprietary talent management tool. The system stores as many as 450 informational items concerning employees. Items regarding a sense of fulfillment, salary, and colleagues are also saved as measurable numerical values.

During the appraisal process performed twice annually, each manager presents the work of team members to the president and directors, and after that, evaluations for team members are decided. In this process, all directors take time to carefully review the Hitolog information for each employee, discuss whether they have achieved a sense of fulfillment and whether they are satisfied with their salary, as well as other factors of employment with SHIFT.

These are made possible by SHIFT's highly productive talent management using Hitolog.

Q8 — What is the future vision of SHIFT's HR Department?

Sugahara: The SHIFT Group employs about 2,500 new recruits annually. In the near future, SHIFT will become one of the companies that employs the most recruits in Japan. If SHIFT achieves this goal, then it must also become a company that thinks through HR measures for engineers more than any other companies in Japan. We also consider that SHIFT must take the initiative in the resolution of social issues, including the shortage of IT human resources. To this end, it is necessary to think outside the box and conceptualize measures that lead the new era. I would like to lead an unprecedented HR Department capable of creating these initiatives.



Q9 — Why do you emphasize the clarity of evaluations?

Sugahara: "How much do I earn for my work?"—Unless this is clarified, we cannot motivate employees. Therefore, SHIFT formulates systematic equations to present clear evaluations, thereby motivating employees. However, we do not simply depend on quantitative factors in evaluating employees. Because we evaluate human beings, we value their contributions to the workplace and other factors that cannot be expressed numerically. SHIFT will grow larger in the coming years. We are preparing appraisal systems foreseeing a scale of 30,000 employees.

Q10 — What are your thoughts as the top of the HR Division?

Sugahara: I like history. Many great persons have governed countries in different eras. To build a prosperous country, attractive systems need to be established to gather diverse people. The government must make substantial investments from tax revenues to generate a positive circle to further enrich residents. I feel strongly that corporate management is close to country and city development.

Diverse talents gather within a company that has attractive HR systems. The company should invest enough in human capital so that employees develop as well, which further enriches employees with higher salaries. This also makes their families happy, and at the same time, the company also further develops. It is important to establish HR systems that underlie this cycle.

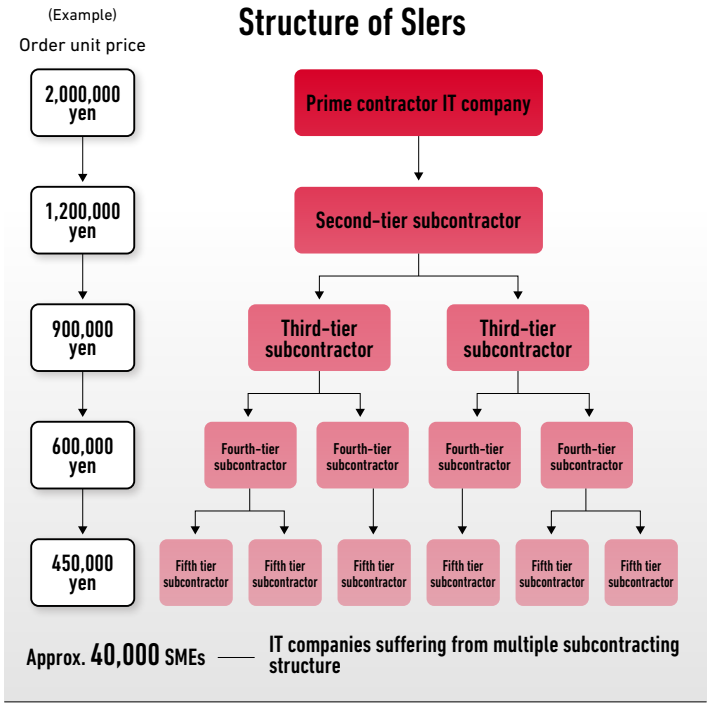
As the head of the HR Department, I am happy to be proactively engaged in an important element that drives the company, while remaining keenly aware of the heavy responsibility.

4 Why does SHIFT promote M&A?

Break through the multiple subcontracting structure in the IT industry

In the IT industry in Japan, many engineers work in an unfavorable environment at subcontract IT companies due to the multiple subcontracting structure. At SHIFT, prime projects account for 80% of its work. SHIFT is boldly promoting a reform toward systems where such employees can receive high salaries that match their jobs by resolving the multiple subcontracting structure through M&A.

Structure of SIers



Further strengthen the "ONE-SHIFT" structure

SHIFT's M&A is not aimed at acquiring human resources but is targeted at companies that have technologies that can generate synergy for satisfying requirements toward the business growth of customers as well as companies specializing in specified fields.

Fields

IT governance	IT governance (budget management, etc.)	SHIFT	SHIFT ASIA	A-STAR
	Development / HR quality management	SHIFT	SHIFT ASIA	A-STAR
Application	UI / UX and UAT marketing	saunashi	分析屋	nadia, DICO, CLUTCH
	Planning / requirement definition	Methodo LOGIC	Post-release services	SHIFT PLUS+
	Test	SHIFT	SHIFT ASIA	A-STAR
	Design / development	SI, ALH, VISH Inc., HOPES, DeMiA		
Infrastructure	Platform grand design	SHIFT	SHIFT ASIA	A-STAR
	Database / middleware	Airitech	Servers	SI, RGA
	OS	Airitech	Terminals	SNC
Network	Network		Security	SHIFT SECURITY
Data center	Data center / cloud			
Software services	Business systems			

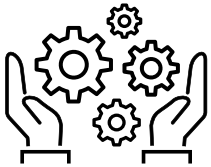
Points that SHIFT values in M&A and PMI

SHIFT promotes M&A based on "SHIFT 1000", an ongoing growth strategy, and a strategy to provide broader solutions to underlie the subsequent growth. M&As are not focused on increasing net sales but on selecting companies with synergistic prospects through the combination of philosophies and strengths of both sides.



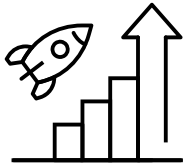
1 Clear standards for M&A and PMI

We at SHIFT carefully investigate growth potential and profitability to achieve sound synergy following M&A. We conduct disciplined M&A assuming positive effect on consolidated BS/PL and affinity with the existing services.



2 Abundant channels for M&A

To avoid the loss of opportunities, we collect information about prospective projects using all available channels. Because SHIFT has many cases of resolving succession issues and those of post-M&A growth, we collect many favorable prospective projects through such successful cases.



3 PMI that facilitates growth

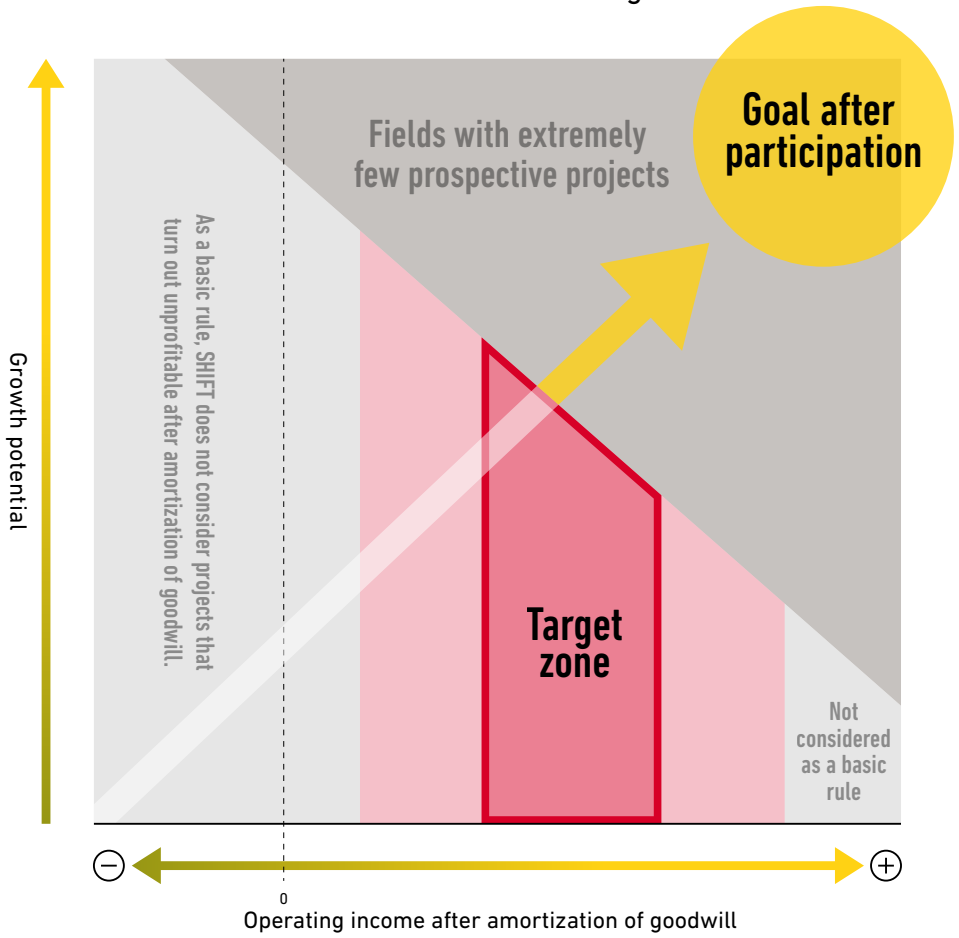
After the company participates in the group, SHIFT has measures for providing it with know-how on recruiting capabilities, marketing capabilities, technological capabilities, and management platform, which are SHIFT's strengths. By implementing measures that match the status of the participating company, we lead a reform toward its growth.

1 Clear standards for M&A and PMI

While a target zone is set broadly, we do not conduct M&As without adequate returns on investments. We carefully investigate growth potential and profitability and conduct disciplined M&A assuming positive effect on SHIFT consolidated BS/PL.

Targets of M&A

Conduct M&A on clear targets



Characteristics of M&A / PMI

☑ M&A at low valuation

- Conduct M&A on companies with EV/EBITDA multiple of about 5 to 10 so that amortization costs will not exceed profit growth

☑ High affinity with SHIFT's existing services

- Increase profitability by utilizing SHIFT's marketing capabilities and prime distribution channels
- Increase net sales by utilizing SHIFT's recruiting capabilities and HR know-how

☑ Post-M&A management policy

- Support necessary functions of each company, rather than forcibly applying SHIFT's culture and style

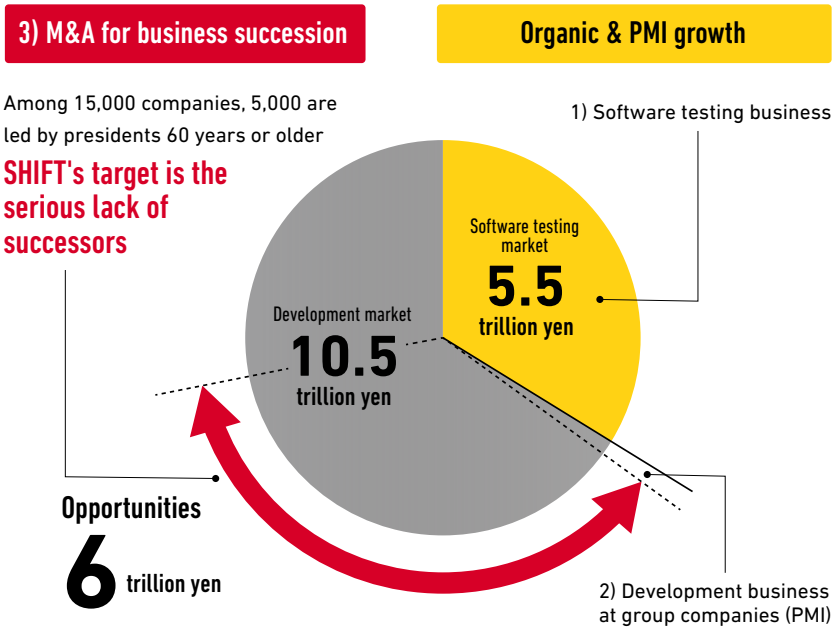
Independence and centrifugal force		Centripetal force
☑ **Company name** is not changed	×	☑ Support in marketing and recruiting **to increase gross profit**
☑ **HR system** is not changed		☑ Culture sharing under **"ONE-SHIFT"**
☑ **SG&A** are not reduced		

2 Abundant channels for M&A

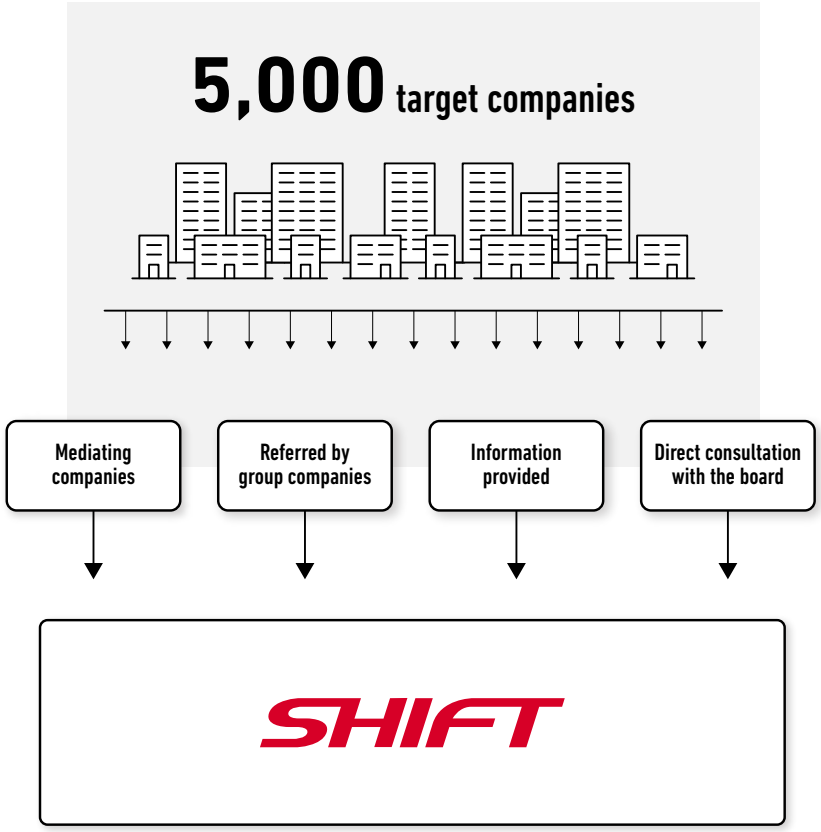
Bottlenecks in the IT industry vary, such as the lack of successors, recruiting, and marketing. Companies with low growth are transformed into high-growing companies following participation in SHIFT. Owing to the increase of such successful cases, prospective projects are collected through diverse channels.

Companies with serious succession issues

Among the IT companies in Japan, about 5,000 are considered to be led by presidents aged more than 60 years, indicating serious succession issues. Most presidents want to prepare an environment where employees and successors can work happily. Because SHIFT has resolved the business succession issues through M&A in several cases, we are receiving increasing information on prospective projects.



Collect information of prospective projects through all channels

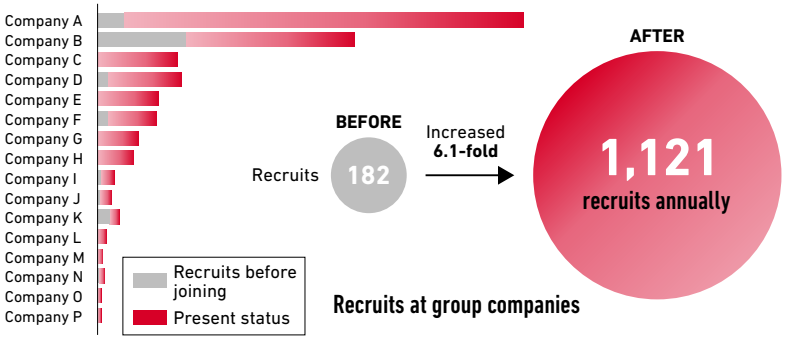


3 PMI promotes outstanding growth following participation

After the company participates in the group, SHIFT has measures for providing it with recruiting capabilities, marketing capabilities, technological capabilities, and a management platform, which are SHIFT's strengths. After participation, SHIFT provides the know-how and opportunities that match the status of each company, thereby achieving high growth in net sales, recruiting, and marketing.

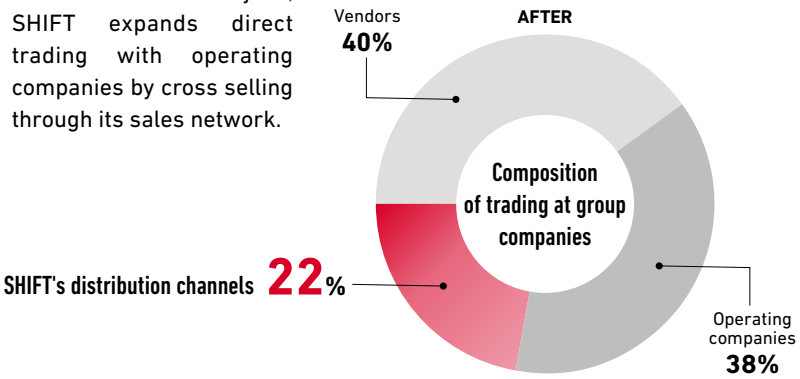
1. Recruitment measures

For companies that have recruiting difficulty due to low recognition in the industry or low recruiting power, SHIFT establishes a system for gathering people by utilizing its high recognition, recruiting channels, and methodology.



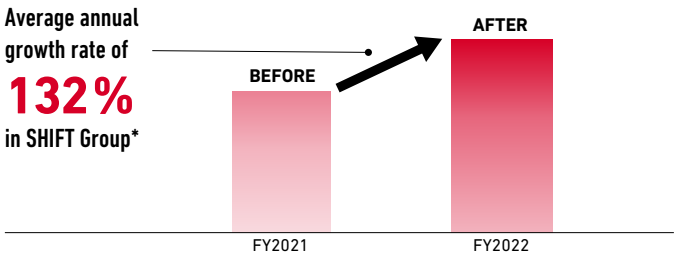
2. Marketing measures

For companies that mostly handled subcontract jobs, SHIFT expands direct trading with operating companies by cross selling through its sales network.



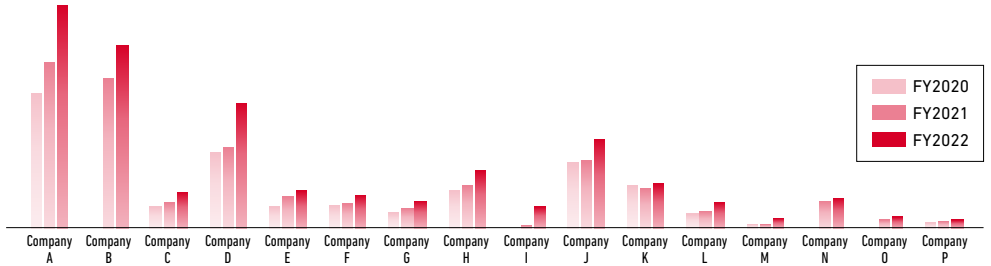
3. Sales growth

Group companies have achieved substantial sales growth by strengthening service capabilities and promoting demand increases supported by SHIFT's various measures.



Trends in the overall net sales of group

*Total net sales of group companies joining before FY 2020



Trends in net sales by group company

Missions, visions, and values of group companies that comprise “ONE-SHIFT”

We set a guideline for all group companies to pursue growth through concerted efforts and support them with a robust “ONE-SHIFT” scheme.

株式会社システムアイ

Update system development in Japan to upgrade Developer Experience (DX)

株式会社SNC
ビジネスに NEXT SWITCH を。

From unnecessary to necessary and from chaos to harmony—jointly creating a new future

VISH Inc.
Vision Share

Actualizing the hopes of people using the Internet

A-STAR

A company that makes the most contribution to IT freelancers reform

DEMIA

Using the power of IT to contribute to the development of culture as the fruit of human activities



ALH
AS LEADING HARMONIZER

We create together for future generations

ERPで働き方をリノベートする
HOPES

Making working more exciting

CLUTCH

We provide cost-effective strategies that ultimately pursue the web possibilities

nadia

Be a Creator’s Biotope—establishing an ecosystem of creators

Airitech

Making the maximum contribution to customers' business through the best teamwork

DICO

Being responsible for our own lives — To provide happiness to people across the world

株式会社 分析屋

We create a future through data analysis and prediction. We make society more affluent through data analysis

00 S
01 H
02 I
03 F
04 T

CHAPTER 03

FUTURE GROWTH STRATEGY

CHAPTER 03 — FUTURE GROWTH STRATEGY

To become top of mind awareness as the comprehensive DX service provider and a company selected in each field

SHIFT management continues to reform as a company that contributes to the resolution of social issues and is selected by stakeholders as indispensable.

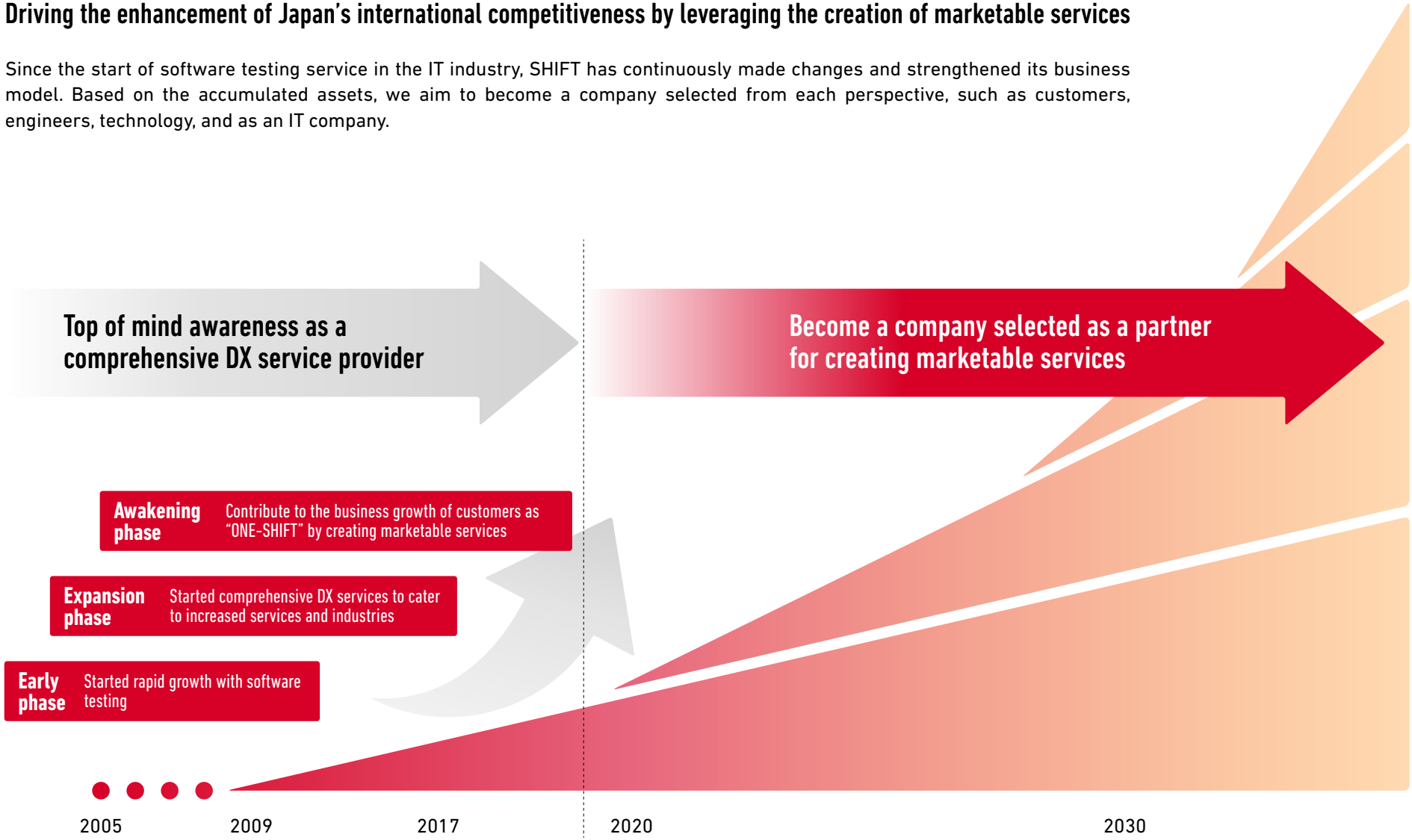
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070 What SHIFT aims to be
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Future of SHIFT

Driving the enhancement of Japan's international competitiveness by leveraging the creation of marketable services

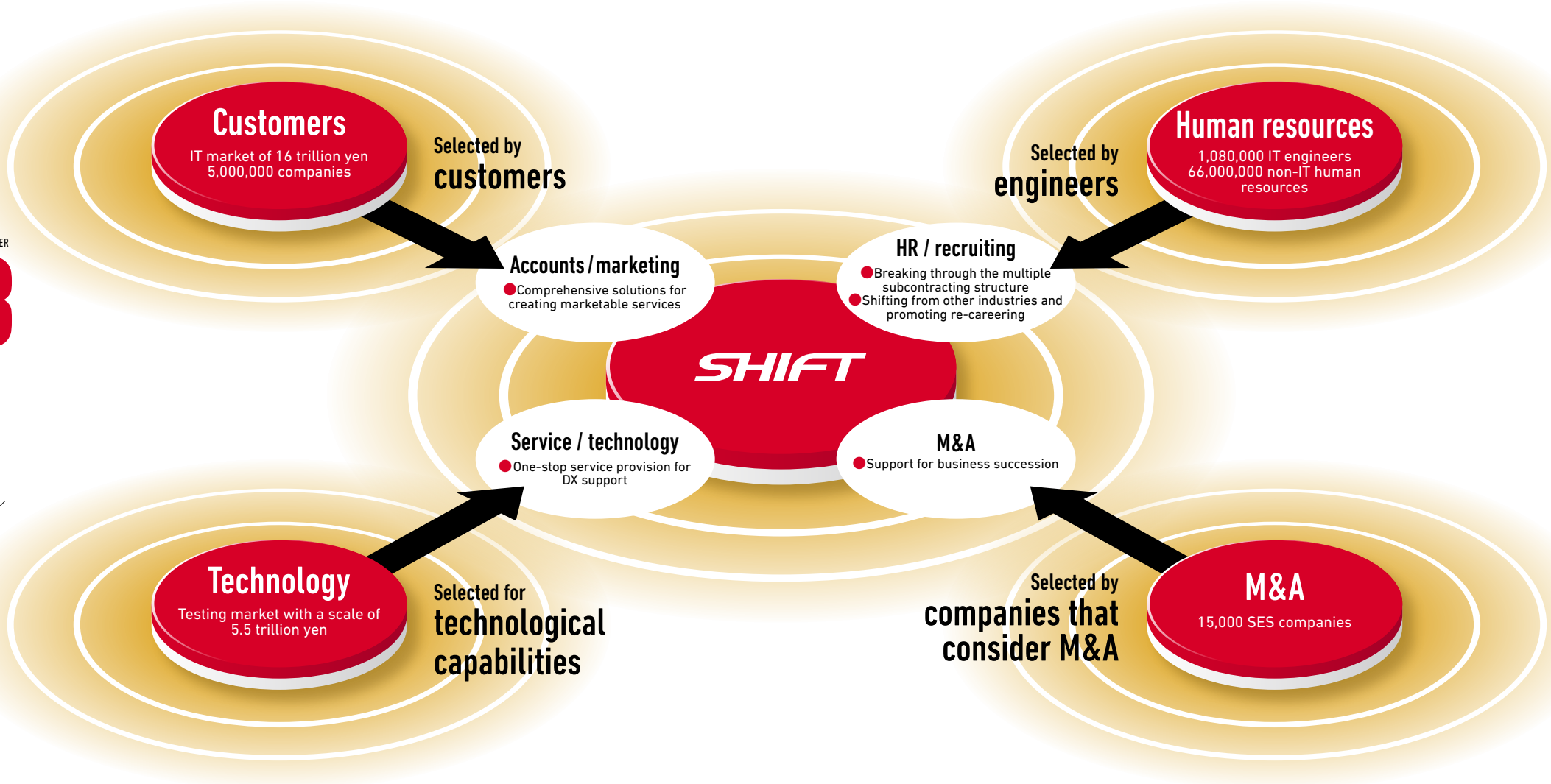
Since the start of software testing service in the IT industry, SHIFT has continuously made changes and strengthened its business model. Based on the accumulated assets, we aim to become a company selected from each perspective, such as customers, engineers, technology, and as an IT company.



SHIFT's positioning

To become a company selected by customers and engineers

To become an indispensable company selected by stakeholders at each of the four corners that SHIFT focuses on, we continue strengthening our platform.



Social issues that SHIFT aims to resolve

As SHIFT grows, society becomes better, and social issues are resolved—such a company further develops with demand from society. We are further strengthening our platform to become a company of 300-billion, 500-billion, and 1-trillion-yen scale.

Social issues that SHIFT copes with

Market condition of the IT industry

Strengthening international competitiveness with high labor productivity

IT market of 16 trillion yen in Japan maintains a slow growing trend year after year

Measures at SHIFT
Accelerated pioneering with organized sales

Share of proactive investment in IT budget

More companies are increasing budget vs. last year following the COVID-19 pandemic*1

Measures at SHIFT
Approach to IT budget of customers

Increased investment in DX promotion that determines the survival of companies

Increasing demand for DX that really **contributes to business growth**, rather than DX for cost reduction

Measures at SHIFT
DX proposals committed to customers' requirements

Environmental changes in IT development

Share of IT internalization at operating companies

Although demand for internalization increases, progress is slow due to difficulty in human resource acquisition*2

Measures at SHIFT
Accelerated BPO of testing

Reduced needs for offshoring

Needs for reshoring are high considering foreign exchange and increasing labor cost

Measures at SHIFT
Accelerated pioneering with organized sales

Engineer recruiting environment

Breaking through the multiple subcontracting structure that oppresses engineers

There are 1,080,000 engineers and slowly increasing.
Engineers will further increase if the employment environment is improved.

Measures at SHIFT
Promoting re-careering

Resolving serious shortage in engineers

Engineers run short by about 800,000 by 2030 and will further deficient due to the high need for DX.

Measures at SHIFT
Enhancing the recruiting brand

Improving working environment of engineers

Needs for remote working environment stay high in the post-COVID-19 era

Measures at SHIFT
Proactive employment from distant regions

Economic and political risks

Weak yen and widening gap in prices

Noticeable gap in purchasing power with other countries

Measures at SHIFT
Pursuing orders from overseas

Threat of cyber attacks Unstable global situation

Unstable Russia-Ukraine situation; concerns in the East Asia situation

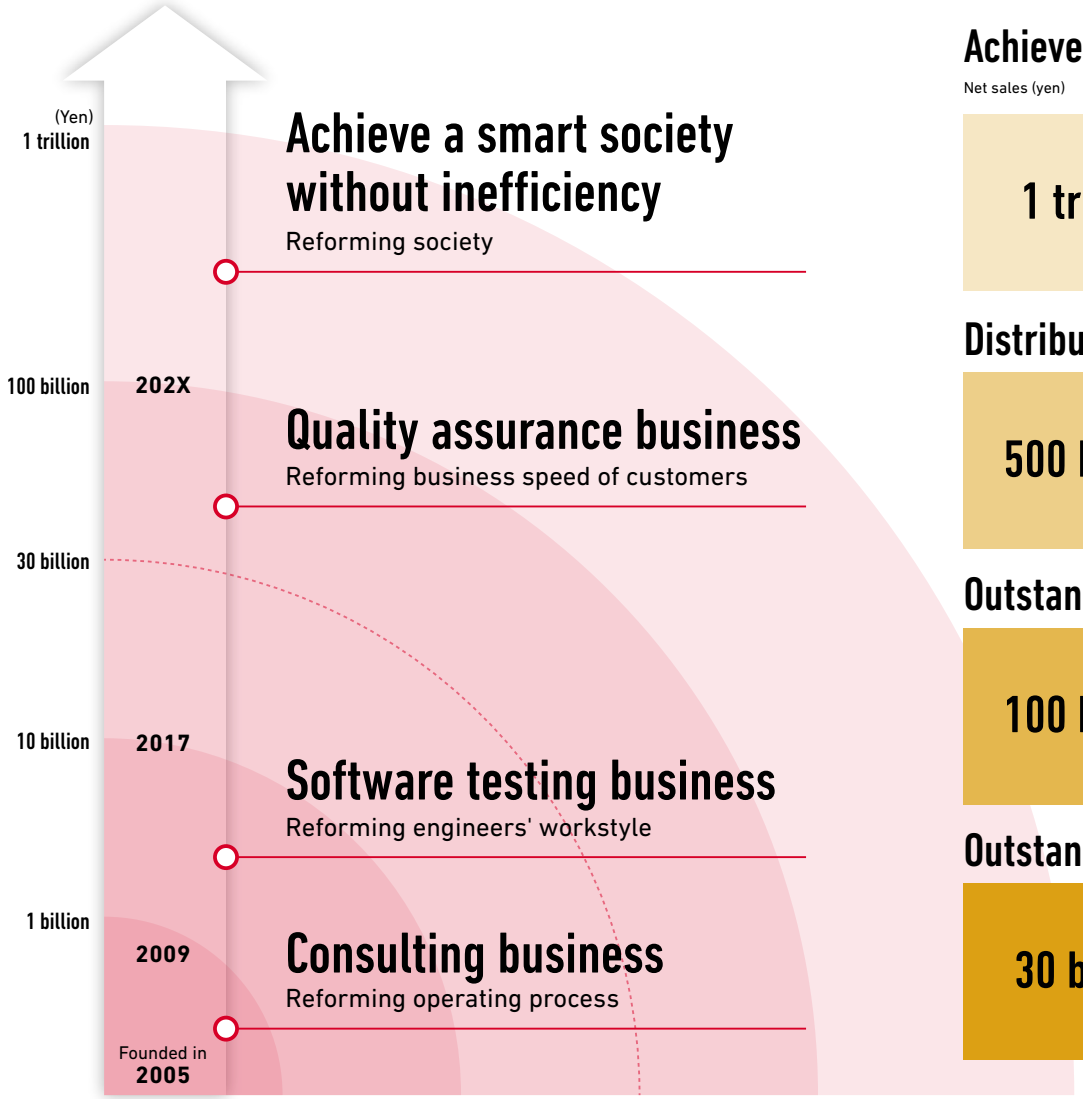
Measures at SHIFT
Grasping customers' conditions

*1 Domestic Investment Trends Research Report 2023 *2 Information-technology Promotion Agency, Japan (IPA)

What SHIFT aims to be

We keep reforming toward the achievement of a smart society without inefficiencies

We aim to become a company with net sales of 300 billion yen and then 1 trillion yen, which functions as the social infrastructure.



Achieve a smart society

Net sales (yen)	Group companies	Operating profit (yen) Operating profit margin	Salary standard (yen)
1 trillion	300	200 billion 20%	Global company level Section manager salary (model salary): 15M yen at 35 years old 18M yen at 40 years old

Distribution revolution in the IT industry

500 billion	150	85 billion 17%	SI prime company level Section manager salary (model salary): 12M yen at 35 years old 15M yen at 40 years old

Outstanding top vendor of quality assurance

100 billion	50	13 billion 13%	SI semi-prime company level Section manager salary (model salary): 10M yen at 35 years old 12M yen at 40 years old

Outstanding top vendor in each sector

30 billion	15	3 billion 10%	SI semi-prime company level Section manager salary (model salary): 8M yen at 35 years old 10M yen at 40 years old

Social contribution beyond growth

SOCIAL RESPONSIBILITY

Through its business, SHIFT provides value to society

To ensure sustainable growth, SHIFT must combine business expansion and the provision of value to society but not prioritizing nor compromising either. In doing business, SHIFT emphasizes the philosophy that its growth should be linked to the development of a better society.



Materiality matrix in SHIFT

Concept of materiality matrix

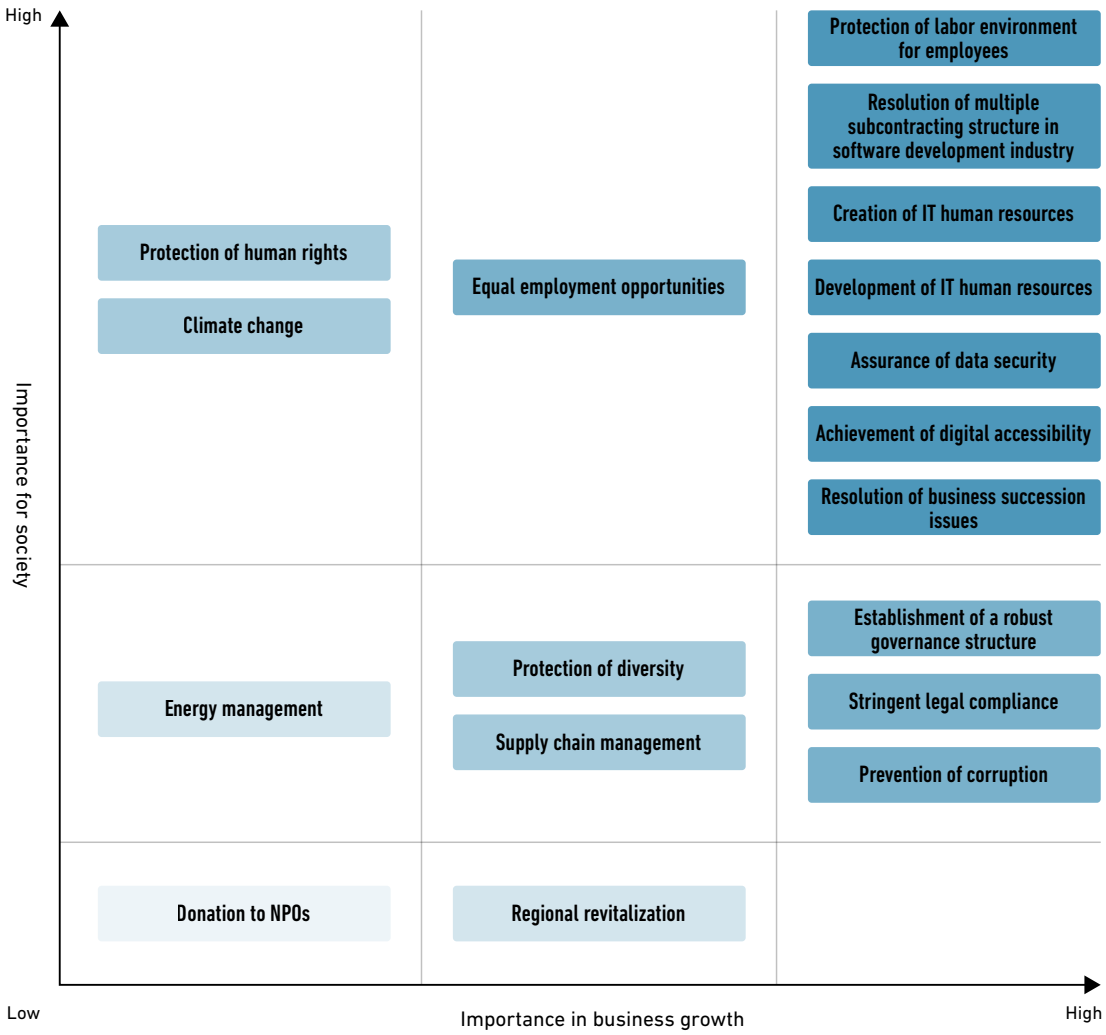
SHIFT visualizes the importance of each ESG-related activity by applying materiality matrix that comprises two parameters: importance for society and importance for SHIFT's business growth.

According to the importance for society, we examine the respective importance for customers, employees and their families, shareholders/investors, national and local governments, industrial associations, and other business partners, and perform comprehensive evaluation. We believe that SHIFT should cope with social issues that are positioned high according to both importance for society and importance for SHIFT's business growth.

STEP 1
Identify potentially SHIFT-related ESG topics based on the major ESG guidelines, such as FTSE, MSCI, GRI, and SASB, as well as on SHIFT's unique viewpoints.

STEP 2
Score each identified topic on a three-point scale through discussion among the management, based on its importance (impact on the top line and the bottom line) for the growth potential and sustainability of our company (SHIFT as a corporation and its employees) and on its importance for the growth potential and sustainability of society (comprising employees and their families, customers, agents, industrial associations, NPOs, national and local governments, and other SHIFT-related stakeholders).

STEP 3
Schematically represent them in a materiality matrix.



ESG Policy

SHIFT × ESG

Basic concepts

"We seek new value concepts and work sincerely to provide value to the world."

Since its foundation in 2005, SHIFT has performed business activities under this corporate philosophy, while gradually expanding its range of influence from the IT industry to the entire society. We operate in the IT industry, which is infested with many issues including the chronic industrial structure, overwork due to labor shortage, leak of personal information, and other security incidents and cases.

In recent years, ESG has been taking root as an indispensable concept for corporate management.

Since its foundation, this concept has taken root in SHIFT as the core of business under its corporate philosophy. SHIFT has promoted ESG-related activities combined with its business expansion. To ensure sustainable growth, we at SHIFT permanently believe that we must combine business expansion and provide value to society but not prioritizing nor compromising either. In doing business, SHIFT emphasizes the basic philosophy that its growth should be linked to the development of a better society.

Management structure

Since its foundation, SHIFT has coped with ESG requirements. As ESG is being broadly promoted, we have established a Disclosure Commission chaired by a director in order to promote ESG-related disclosure. We examine our disclosure policy through repeated discussion at the Commission, which comprises directors, executive officers in charge of respective departments, department managers, and other members who vary in their length of service and experience. The Commission provides inputs to respective departments to promote ESG activities if their activities seem inadequate based on the external evaluation period and other factors.

Social contribution activities

Donation to NGOs / NPOs

Regarding social issues with a low relationship to business growth, we at SHIFT consider that it is important to change the style of our engagement instead of regarding the issues as unimportant for SHIFT.

Instead of simple donation activities or provision of opportunities, we ponder what SHIFT can do toward the more essential and continuous resolution of issues, thereby defining our engagement with the issues.

Japan Heart is an international medical NGO originating in Japan that was established by a pediatrician, Hideto Yoshioka, in 2004, aiming to further improve the quality of medical aid activities based on his long-time experience in overseas medicine. Japan Heart performs about 25,000 therapeutic procedures annually in Southeast Asia and other regions in Japan and overseas, including free-of-charge advanced treatment, such as pediatric cancer surgery. To date, it has performed more than 300,000 procedures (as of March 31, 2022).

SHIFT not only donates to Japan Heart as a company but has also planned, developed, and continuously operated the donation app 1TAP SAVE LIFE for individuals who are not familiar with donations as a unique aiding activity of SHIFT. This initiative is designed to help individuals find donations more familiar in order to spread the activities of Japan Heart throughout society, obtain public understanding, and gain permanent and broad support.

In this way, SHIFT will continue setting an example that we can provide value based on expertise accumulated in our business activities, even for social issues that seemingly have low direct relationship with our business, by changing our perspectives and introducing an innovative style of engagement.









1 TAP SAVE LIFE: https://onetapsavelife.japanheart.org

Social contribution activities





Promotion of local communities and regional revitalization

SHIFT PLUS is a group company of SHIFT that proactively promotes the regional revitalization of Kochi Prefecture, where the company is based. SHIFT PLUS advocates the attractiveness of Kochi through its internal media and community management in order to bring people back to the prefecture faced with such issues as aging and a decreasing population.

SHIFT PLUS also operates a digital HR development program for single-parent households living in Kochi in cooperation with GIFT, an NPO that supports single-parent households with a child (or children). For single-parent households with low IT literacy, the program implements seminars for teaching skills and literacy, thereby supporting the skill upgrading and job finding/changing of individuals in those households.

The program also aims to develop Kochi as a role model for the resolution of regional issues by creating new businesses and employment with IT. The company plans to establish new sites in stages to create employment in regional cities and elsewhere, aiming to revitalize the regions.

SNC, a group company based in Osaka Prefecture, started a free-of-charge PC rental service to single-parent households as an employment support activity in cooperation with municipalities in 2022.

Through the cooperation of the two companies, 20 PCs were donated for free to GIFT, so that persons who do not have PCs can take seminars without worry. On November 15, 2022, a PC donation ceremony was held at the head office of SHIFT PLUS.

External evaluation

Positive Impact Finance

In June 2021, SHIFT obtained an available credit of 7.0 billion yen for M&As from the Positive Impact Finance organized by Sumitomo Mitsui Banking Corporation. This credit was achieved through evaluation by DNV Business Assurance Japan as a third-party accreditation agency, regarding SHIFT's ESG measures and information disclosure.

Acquired AAA in MSCI ESG Rating

In March 2023, SHIFT acquired AAA in MSCI ESG Rating. This rating was achieved as a result of SHIFT's proactive ESG activities and information disclosure in various businesses. We at SHIFT will continue to promote ESG-related activities referring to the MSCI ESG Rating and other indicators.

MSCI ESG RATINGS AAA

CCC	B	BB	BBB	A	AA	AAA

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Business activities related to the SDGs

SHIFT endorses the Sustainable Development Goals (SDGs) adopted at the United Nations Summit in 2015 and continues to create new value by contributing to the resolution of social issues with know-how accumulated in its business.



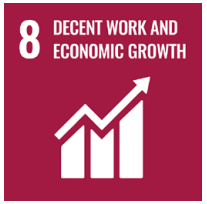
SDGs especially related to SHIFT's business activities



SHIFT has promoted projects focused on quality and accumulated knowledge. Based on this knowledge, SHIFT opened the external seminar Quality School.



SHIFT is completely based on a merit system. No individual characteristics, such as gender, are included in the criteria for recruiting or evaluations.



SHIFT implements HR management focused on the sense of fulfillment among employees and achieves a high net sales growth rate every year.



SHIFT provides software quality assurance for any industries and products, thereby contributing to the establishment of business platforms and the enhancement of labor productivity at companies.



SOCIAL CONTRIBUTION

Environment

SHIFT's concepts about climate change issues

SHIFT does not have data centers or other equipment. Therefore, its direct CO_2 emissions and water consumption/discharge in business activities are limited. On the other hand, as a company that continues expanding, SHIFT's impact on the environment and society is increasing.

Therefore, SHIFT emphasizes environmental conservation activities in addition to business activities. We at SHIFT promote proactive energy-saving activities to reduce CO_2 emissions due to power consumption by PCs and make a point of turning off lights in unused meeting rooms.

In addition, SHIFT streamlines the software development process through its business activities. In this way, SHIFT eliminates inefficiency in human resources and processes in software development, thereby contributing to the reduction of absolute environmental capital consumed by the IT industry in Japan.

CO_2 emissions (t-CO_2)	FY 2021 result	FY 2022 result
Scopes 1 + 2 (t-CO_2)*1	393.05	542.05
Scope 3 (commuting) (t-CO_2)*2	285.28	226.48
CO_2 emissions per employee*3	0.12	0.12
CO_2 emissions per sales*4	0.01	0.01

*1 SHIFT's result, non-consolidated; Scope 1 is excluded from the scope. Scope 2 figures are location-based results.
*2 SHIFT's result, non-consolidated; Estimated from the average registered employees during the term, average ratio of employees working from home, and average commuting distance; The following categories of Scope 3 are excluded from calculation as not applicable: purchased goods and services, capital goods, fuel- and energy-related activities excluded from Scopes 1 and 2, upstream transportation and distribution, waste generated in operations, upstream leased assets, downstream transportation and distribution, processing of sold products, use of sold products, end-of-life treatment of sold product, downstream leased assets, and franchises. The preparation is in progress for the calculation of business travel and investments.
*3 SHIFT's result, non-consolidated; the sum of Scopes 1 + 2 and Scope 3, divided by the average registered employees of SHIFT during the term, non-consolidated
*4 SHIFT's result, non-consolidated; the sum of Scopes 1 + 2 and Scope 3, divided by the full-year net sales of SHIFT, non-consolidated (million yen)

SHIFT's response to climate change issues

SNC, a group company of SHIFT, promotes waste reduction and CO_2 emissions reduction in the entire society through the reuse business of preowned PCs. As the specific results in 2020, annual CO_2 emissions were reduced by 4,162 tons. This was verified to be worth about 24 million yen* when converted in emissions trading.

(* As of April 8, 2021)

株式会社SNC
ビジネスに NEXT SWITCH を。

PC selling service attached with a green electricity certificate:
cabof

SNC sells PCs attached with a green electricity certificate. A green electricity certificate can be used for the calculation of renewable energy consumption in the required reporting of total emissions reduction to the Tokyo metropolitan government and RE100.

Because climate change has become important global issues, especially large companies and large-scale business sites may become subject to the obligation for the disclosure and reduction of CO_2 emissions. When a PC attached with a green electricity certificate is purchased through the cabof service provided by SNC, a part of the price is used, through SNC, for the maintenance and expansion of power generation equipment for renewable energy.

PCs are the infrastructure required in all industries, regardless of business scale. By establishing infrastructure, we contribute to the expansion of renewable energy and advocate our environmental contribution to outside.

SDGs PC cabof

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01 H

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CHAPTER 04 T THE FACT

SHIFT

CHAPTER 04 — THE FACT

Highlights FY2022

Review of data FY2022

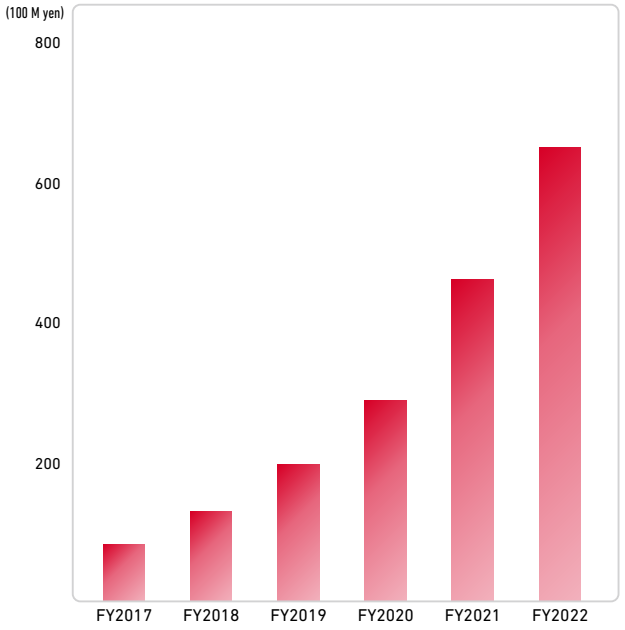
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Financial highlights

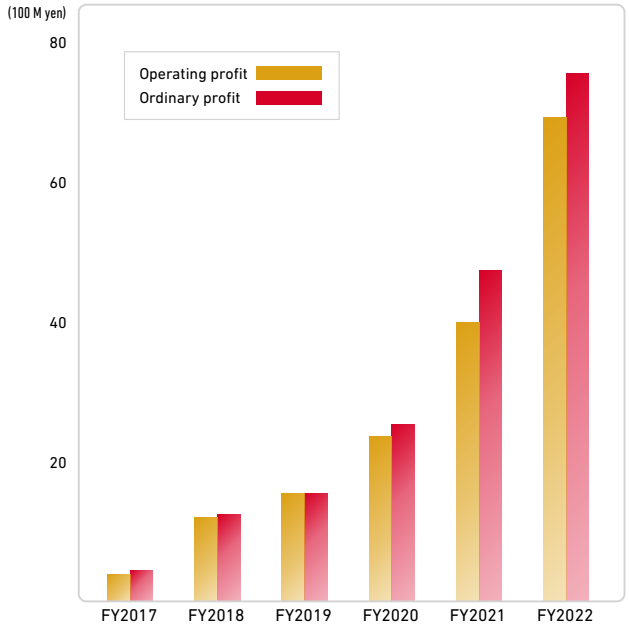
Net sales for FY 2022 stood at 64,873,245,000 yen (increased by 41.0% vs. FY2021), operating income at 6,913,337,000 yen (increased by 73.1% vs. FY2021), ordinary income at 7,552,625,000 yen (increased by 59.4% vs. FY2021) and profit attributable to owners of parent at 4,974,219,000 yen (increased by 76.5% vs. FY2021). Because of the application of the revenue recognition standard, net sales decreased by 1,092,164,000 yen and operating income by 1,969,000 yen.

Net sales



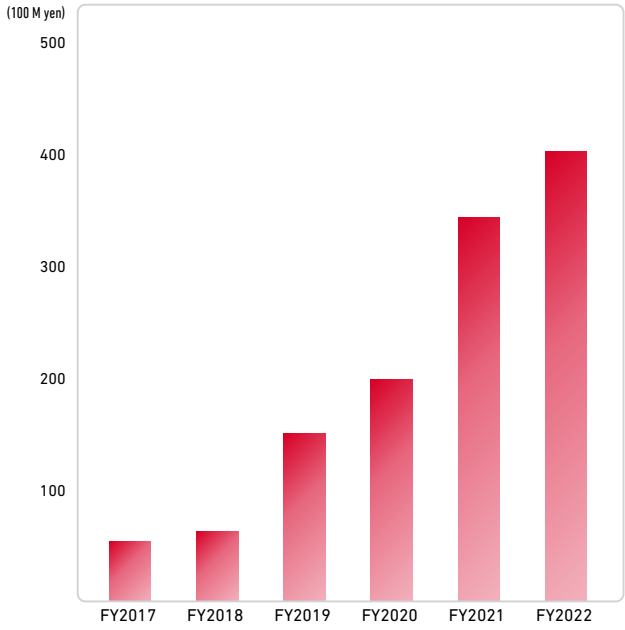
In addition to HR retention, which stayed steady, SHIFT has developed new customers through strengthened sales force, while increasing shares in customers by promoting the cross selling of services among group companies through enhanced intra-group collaboration. Because the contribution of new M&A to performance was minimal in FY 2022, the net sales growth of 41.0% vs. FY2021 proved our actual growth potential.

Operating profit and ordinary profit



While promoting proactive recruiting activities, SHIFT achieved profit increase by continuously reducing the operating cost ratio to net sales through streamlined operation. The ordinary profit increased because of the receipt of employment adjustment subsidies at several group companies during the COVID-19 pandemic.

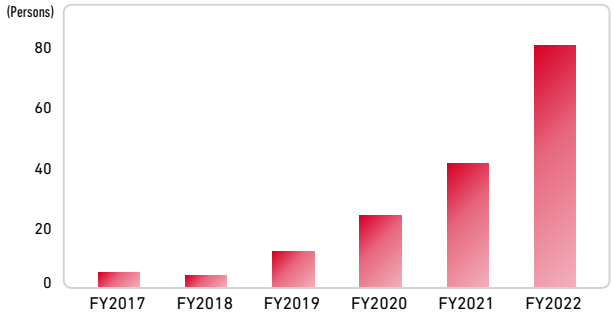
Total assets



SHIFT has steadily strengthened cash generation by increasing net sales through the incessant improvement of sales activities and HR retention. The generated cash is used for M&A, strategic capital and business alliance, and other purposes. Combining these with procurement from outside, SHIFT aims to achieve both safety and efficiency with a future vision for continued growth.

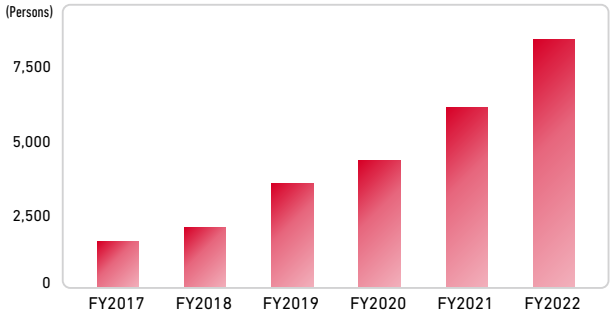
Non-financial highlights

Employees taking parental leaves



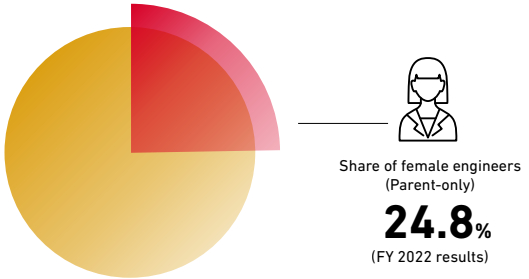
In FY 2022, 80 employees took parental leave, all of whom returned to their jobs. Considering changes in life stages, SHIFT has systems for partner nursery schools, parental short working hours, and more for other life stages. SHIFT strives to establish an environment that helps employees work while raising their children.

Number of engineers (consolidated)

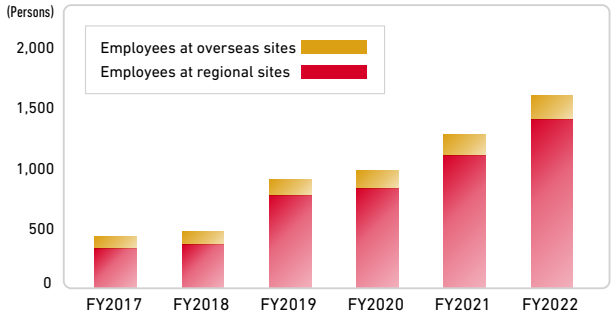


SHIFT had 8,415 engineers on a consolidated basis in FY 2022. In addition to proactive recruiting throughout the group, engineers steadily increased through M&As every year. SHIFT is further accelerating the employment of female engineers, striving to establish an environment where female engineers can easily exercise their abilities.

Share of female engineers (Parent-only)

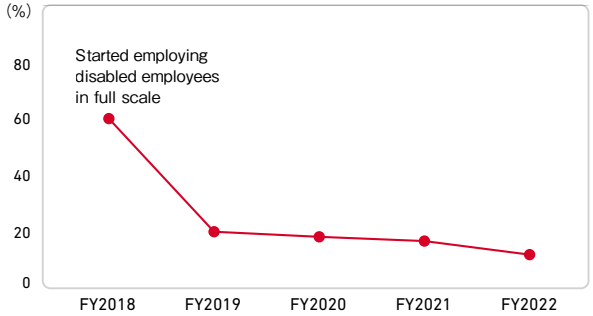


Employees at regional sites (consolidated)



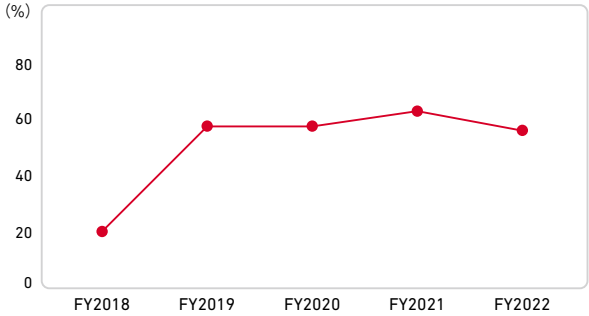
At the end of FY 2022, SHIFT had 1,601 employees at its sites in Japan and overseas. As teleworking has become a new workstyle following the COVID-19 pandemic, SHIFT is establishing an environment where employees can work in diverse styles.

Turnover of disabled employees (Parent-only)



The turnover of disabled employees stood at 11.9% in FY 2022. An increasing number of employees are taking root at SHIFT through its measures to create a sense of fulfillment for each individual by allocating tasks that match their respective abilities so that they can establish steady career.

Share of outside directors (Parent-only)



To strengthen its management and enhance its soundness, SHIFT has invited outside directors with high expertise. Outside directors have proactive discussions and exercise their knowledge for SHIFT. Their viewpoints indicated in discussions are always incorporated into management.

Financial data

		FY2018	FY2019	FY2020	FY2021	FY2022
Net sales	(Thousand yen)	12,792,680	19,531,960	28,712,177	46,004,569	64,873,245
Gross profit	(Thousand yen)	3,891,742	6,216,061	8,950,134	13,912,970	21,100,131
Gross profit margin	(%)	30.4	31.8	31.2	30.2	32.5
Selling, general and administrative expenses	(Thousand yen)	2,690,839	4,675,448	6,596,758	9,918,044	14,186,793
Operating profit	(Thousand yen)	1,200,902	1,540,613	2,353,376	3,994,926	6,913,337
Operating Profit margin	(%)	9.4	7.9	8.2	8.7	10.6
Profit attributable to owners of parent	(Thousand yen)	368,239	970,490	1,648,692	2,818,609	4,974,219
Total assets	(Thousand yen)	6,284,898	14,975,329	19,821,109	34,272,155	40,230,021
Total liabilities	(Thousand yen)	3,778,464	6,037,275	9,039,614	11,588,287	14,222,955
Net assets	(Thousand yen)	2,506,433	8,938,053	10,781,494	22,683,868	26,007,065
Capital adequacy ratio	(%)	36.7	57.7	53.0	65.3	63.6
Book value per share	(Yen)	159.33	551.69	661.65	1,277.48	1,452.20
Net income per share	(Yen)	25.49	65.54	104.50	162.71	282.79
Cash flow from operating activities	(Thousand yen)	1,247,514	1,133,873	2,250,560	4,758,005	7,392,491
Cash flow from investing activities	(Thousand yen)	△272,130	△1,152,505	△5,926,354	△5,432,861	△5,605,937
Cash flow from financing activities	(Thousand yen)	△355,875	6,247,891	1,510,923	8,286,168	△3,082,587
Cash and cash equivalents at end of year	(Thousand yen)	2,474,400	8,691,223	6,524,000	14,147,471	12,899,120
Capital	(Thousand yen)	585,694	3,268,039	63,367	11,600	77,543
ROE	(%)	17.4	17.7	17.2	17.1	20.7
ROIC	(%)	9.2	12.5	12.4	13.5	17.8
ROA	(%)	6.3	9.1	9.5	10.4	13.4

Nonfinancial data

	FY2018	FY2019	FY2020	FY2021	FY2022
Employees (consolidated)*1	2,467	3,829	4,800	6,828	9,361
Of which female employees	629	1,049	1,344	1,923	2,606
Share of female employees	25.5%	27.4%	28%	28.2%	27.8%
Average age*2	34.6	34.2	34.5	33.4	36.5
Engineers (consolidated)*3	2,054	3,537	4,322	6,115	8,415
Share of female engineers (Parent-only)	22.8%	24.9%	26.5%	23.2%	24.8%
Recruits from non-IT human resources*4	–	630	940	581	916
Officers (Directors)	5	7	7	8	9
Of which outside directors	1	4	4	5	5
Share of outside directors	20.0%	57.1%	57.1%	62.5%	55.6%
Sessions of Board of Directors meeting	15	13	15	13	14
Average participation rate of all outside directors*5	100.0%	100.0%	98.4%	100.0%	97.1%
Sessions of Audit & Supervisory Board meeting*6	12	12	12	14	13
Average participation rate of all Audit & Supervisory Board members	100.0%	100.0%	100.0%	100.0%	100.0%
Annual salary increase rate*7	9.4%	10.4%	10.7%	10.4%	10.2%
Employees taking top gun training courses*8	–	–	315	611	1,566
Employees passing top gun training courses*9	–	–	82	93	215
Annual average monthly overtime hours*10	13.6	15.2	10.3	10.1	5.48
Average monthly overtime hours of engineers (industry average)*11	16	16	13	11	13
Donation to Japan Heart	100,000	100,000	100,000	100,000	1,500,000
Books provided to employees with children	93	107	208	160	67
Employ turnover*12	11.5%	13.0%	8.1%	7.4%	6.9%
Disabled employees	7	13	37	72	88
Turnover of disabled employees	60%	20%	18.2%	16.7%	11.9%

(Non-consolidated)

*1 Those registered at the end of each fiscal year, including employees of partner companies and temp staff
*2 Those registered at the end of each fiscal year (excluding officers)
*3 Aggregated irrespective of employment types
*4 Semi-new graduates, part-timers, and game testers employed by SHIFT; in FY 2021, the employment of non-IT human resources decreased because SHIFT focused on the recruitment of high-layer human resources.
*5 Participation rate of outside directors on the Board of Directors in which they can participate in each fiscal year
*6 SHIFT became a company with Audit and Supervisory Committee in November 2019.
*7 Full-time employees registered from appraisal in the previous fiscal year (September every year) to appraisal in the new fiscal year (August every year) (excluding, however, employees on the leave, plan to quit the work, on parental leave, or seconded to group companies at appraisal in the new fiscal year).
*8 Started in January 2020
*9 Started in January 2020
*10 Including employees entering or leaving the company during each fiscal year as well as full-time employees and those on the leave; exempt employees are excluded.
*11 Quoted from the Basic Survey on Wage Structure for each fiscal year; the data for FY 2021 are quoted from the Survey 2020. The items quoted from the Basic Survey on Wage Structure as industrial average results were changed in October 2021 because the definitions of survey items were changed from the Survey 2020 and because SHIFT's business range expanded.
*12 Calculated for full-time employees with the full-time employees leaving the company during the year as the numerator and the registered full-time employees at the end of the year as the denominator.

IR activities

SHIFT promotes public understanding on its management policy, business strategies, and other factors through information disclosure on the corporate website, IR meetings, and other occasions. We at SHIFT will continue to ensure rapid and fair information disclosure for enhanced IR activities.

Activity results

	FY2019	FY2020	FY2021	FY2022
Individual meetings for analysts and institutional investors	264	330	295	356
Group meetings held by securities companies	—	3	6	21
Large meetings held by securities companies	—	3	7	4
Large meetings held by SHIFT	—	—	1	1
Financial results briefing held by SHIFT	4	4	4	4

Trends in aggregate market value



External evaluation

SHIFT promotes ESG information disclosure, which is becoming increasingly important, on its corporate website and through other media. SHIFT undergoes ESG evaluation while making these efforts toward better evaluation.

MSCI ESG RATINGS AAA

CCC B BB BBB A AA AAA

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L-boshi certification

A system that certifies companies with a favorable environment for promoting work by female employees, satisfying a certain standard based on the Act on Promotion of Women's Participation and Advancement in the Workplace (hereinafter referred to as the "Act on the Promotion of Women's Participation")

女性が活躍しています！

Certified Health & Productivity Management Outstanding Organization

A system that commends large companies, SMEs, and other organizations that practice especially outstanding health and productivity management by implementing initiatives that match regional health requirements and/or health promotion initiatives advocated by the Nippon Kenko Kaigi.

2022
健康経営優良法人
Health and productivity

CORPORATE GOVERNANCE

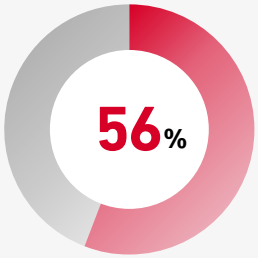


SHIFT's corporate governance drives rapid growth

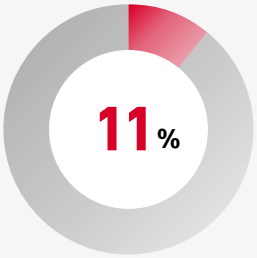
Through vigorous dialogue, SHIFT exhaustively manages risks to increase the probability of successful business growth.
The following section describes SHIFT's governance structure at its core.



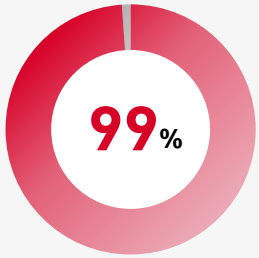
Share of outside directors



Share of female officers



Participation rate at Board of Directors meeting



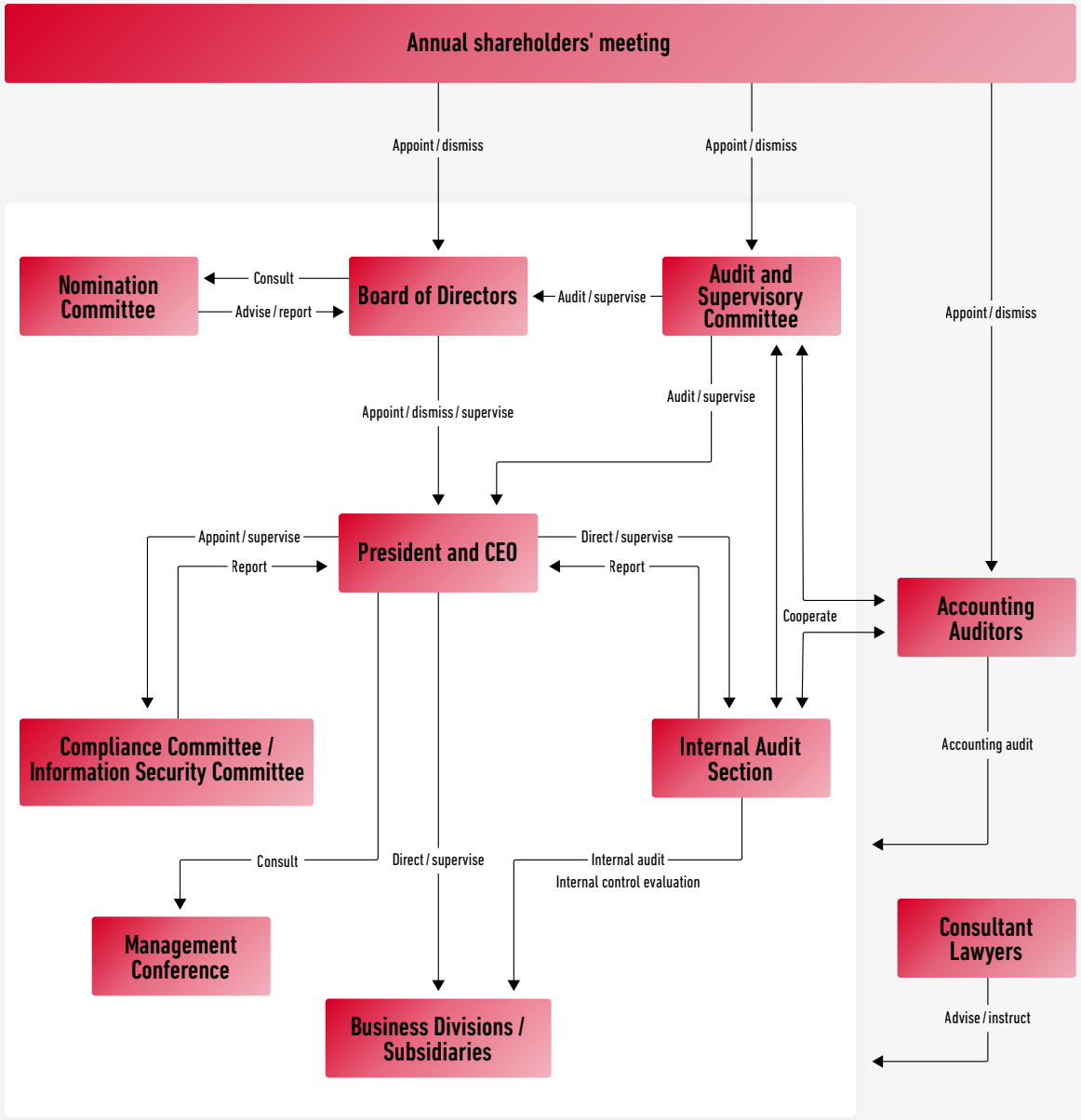
Basic policy

Basic policy for governance

To increase profitability and enhance corporate value as a premise for corporate survival from the managerial viewpoint focused on shareholders, SHIFT establishes business administration systems to increase the efficiency and agility of management. At the same time, SHIFT recognizes its corporate social responsibility and spares no efforts in making social contributions through business activities and achieving harmonized profit for its stakeholders. Based on these attitudes, SHIFT introduces a monitoring system for operational execution and discloses information in a timely and appropriate manner in order to ensure transparency and objectivity in business activities for the establishment of business administration systems.

Reason for selecting the present corporate governance structure

SHIFT is a company with an Audit and Supervisory Committee. Directors as Audit and Supervisory Committee members audit the soundness of corporate management and the execution of duties by directors, thereby establishing a sound management system. SHIFT also selects highly independent outside directors. SHIFT has selected the present corporate governance system that ensures highly transparent management as described above.



Systems and Committees

Audit and Supervisory Committee

Meeting frequency: once monthly

To increase the effectiveness of audits while ensuring mobility, SHIFT has become a company with an Audit and Supervisory Committee.
Audit and Supervisory Committee confirms SHIFT's governance and internal control status.

Members

Yusuke Arai (Chair)
Kenji Chishiki
Tetsujiro Nakagaki

Agenda items

-Activity reports from Audit and Supervisory Committee members
-Opinion exchange with directors, executive officers, and others
-Evaluation of the attitudes and measures of executive managers on governance/compliance

Nomination Committee

Meeting frequency: once annually

The Nomination Committee reviews the appointment of candidates for outside directors, thereby guaranteeing the transparency of the appointment/dismissal process.

Members

Yusuke Arai (Chair)
Masaru Tange
Taichi Hattori
Kenji Chishiki
Tetsujiro Nakagaki

Agenda items

-As an advisory committee to the Board of Directors, the Nomination Committee reports and advises concerning the appointment and dismissal of outside directors.

Compliance Committee

Meeting frequency: four times annually

The Compliance Committee discusses and adopts motions on various business risks concerning legal compliance, the prevention of security incidents, and the prevention of harassment.

Members

Masaru Tange (Chair)
Michio Sasaki
Motoya Kobayashi
Taichi Hattori
Yusuke Arai

Agenda items

-Verification of compliance status and violations in the company
-Review, discussion, and implementation of compliance measures

Performance Management Conference

Meeting frequency: once weekly

While sharing business performances in the group, the Management Conference also discusses and reviews operational execution based on the management strategies and policies determined by the Board of Directors.

Members

Masaru Tange (Chair)
Michio Sasaki
Motoya Kobayashi
Taichi Hattori
Yusuke Arai
Managers or higher management officers in each department

Agenda items

-Progress in operational execution based on the strategies/policies determined by the Board of Directors

Information Security Committee

Meeting frequency: once monthly

Members selected from internal departments discuss and review items for the improvement of information security, including the prevention of security incidents.

Members

Masaru Tange (Chair)
Members selected from internal departments

Agenda items

-Sharing of near-misses occurring in the company, improvement actions, and the status of improvement
-Review, discussion, and implementation of measures for improving information security awareness

Activities for information security protection and compliance

SHIFT's concept of information security

Ensuring security is an absolute premise for SHIFT because it usually receives customers' highly confidential information assets, such as pre-release products and services, for its business operation.

SHIFT's concept of security does not only include technical procedures. At SHIFT, security refers to measures that reach the awareness of each individual. Effective actions are taken to prevent human errors and other incidents.

Security promotion structure

SHIFT established the Information Security Committee, which is chaired by the president and comprises representatives of departments. When a near-miss incident concerning security is identified, it is shared at the monthly Committee meeting, along with the reporting of improvement status and additional permanent measures. In this way, SHIFT pursues the upgrading of internal information security.

SHIFT has also acquired ISMS certification (ISO/IEC 27001:2013). Based on the ISMS standard, SHIFT establishes rules and regulations when necessary concerning matters considered necessary for maintaining security from the viewpoints of human, physical, organizational, and technological measures. In addition to the matters required by the ISMS standard, SHIFT also copes with other matters indispensable for maintaining security.

ISO27001 認証取得

*Read the QR code for link to the page of other initiatives.

https://www.shiftinc.jp/ir/governance/security/

Rollout of security services

SHIFT SECURITY, a group company of SHIFT, has visualized the skills of rare white hat hackers in Japan and standardized security testing. Just as the CAT tests of SHIFT, SHIFT SECURITY has established a system for identifying non-IT human resources with aptitudes through tests and developing such human resources. This has enabled the broad provision of a high-quality vulnerability diagnostic service while further contributing to the resolution of shortage in security engineers, which has become a social issue. SHIFT will continue contributing to the resolution of social issues through the efforts of its entire group.

SHIFT SECURITY

*Read the QR code for link to the page of other initiatives.

https://www.shiftsecurity.jp/service/

Measures for ensuring compliance

As a leading company in software testing and quality assurance, SHIFT has formulated the Compliance Manual as a basic policy to be observed without exception, and the entire group has declared the observance thereof so that all directors, full-time employees, contract employees, persons who work under any other employment contracts with SHIFT, and persons engaged in operations under the indirect direction/supervision of SHIFT will keenly recognize that they receive and handle the important information of customers and so that operations will be implemented properly and efficiently.

SHIFT also implements monthly e-learning for all employees so that they will continue understanding and recognizing the importance of compliance and SHIFT's basic policy in everyday activities. The response rate is maintained at 100%.

*Read the QR code for link to the page of other initiatives.

https://www.shiftinc.jp/ir/governance/compliance/

Directors

Meet our directors who present a clear vision and powerfully lead SHIFT to its realization.



Masaru Tange, President and CEO (appointed September 2005)

Committees — Nomination Committee and Compliance Committee

Reasons for appointment — He has led the growth of SHIFT as founder to date. He was appointed president and CEO as a person indispensable for the realization of a future vision conceptualized by SHIFT.



Michio Sasaki, Director and Vice President (appointed November 2020)

*Appointed outside director in November 2018, outside director and Audit and Supervisory Committee member in November 2019, and director in November 2020.

Committees — Compliance Committee

Reasons for appointment — As the president and CEO of Keyence Corporation, he made substantial contributions to its growth. As outside director of SHIFT, he strengthened its sales organization. He was appointed because his expertise will be necessary for attaining the net sales target of 100 billion yen as one of SHIFT's goals.



Taichi Hattori, Director and CFO (appointed November 2021)

Committees — Nomination Committee and Compliance Committee

Reasons for appointment — Because he served as CFO at a global company, he has abundant experience and broad knowledge in financial accounting and business administration. He was appointed director because his expertise is considered necessary for strengthening business administration in the future SHIFT Group.



Motoya Kobayashi, Director (appointed November 2014)

Committees — Compliance Committee

Reasons for appointment — As one of the founding members and a right-hand person of Tange, he has launched the software testing service to become SHIFT's core business, thereby driving the establishment of the service and the development of its business. He was appointed because he continues to be the central person in the software testing business and is indispensable for its growth.



Takafumi Murakami, Outside Director (appointed November 2020)

Committees ——— ———

Reasons for appointment —— He served as advisor concerning capital markets at Goldman Sachs Securities Co., Ltd., for 14 years. He was appointed because his supervision based on this experience would help SHIFT strengthen dialogs with capital markets and corporate governance required for its further growth.



Fumiko Motoya, Outside Director (appointed November 2020)

Committees ——— ———

Reasons for appointment —— She has abundant experience and broad knowledge as the executive manager of APA Hotels and Resorts and the APA Group. She was appointed because SHIFT's management structure would be further strengthened with her supervision of overall management, combined with her unique perspective as SHIFT's first female director.



Yusuke Arai, Outside Director and Audit and Supervisory Committee member (appointed November 2021)

Committees ——— Audit and Supervisory Committee, Nomination Committee, and Compliance Committee

Reasons for appointment —— He has highly specialized knowledge and diverse experience concerning corporate accounting as a certified public accountant. He was appointed outside director and Audit and Supervisory Committee member because he would properly execute his duties as outside director and Audit and Supervisory Committee member based on this background.



Kenji Chishiki, Outside Director and Audit and Supervisory Committee member (appointed November 2019)

*Appointed outside director in November 2018 and appointed outside director and Audit and Supervisory Committee member in November 2019

Committees ——— Audit & Supervisory Committee and Nomination Committee

Reasons for appointment —— He has served as the presidents of Kanebo Cosmetics Inc., Nihon Kotsu Co., Ltd., and other companies. He was appointed Audit and Supervisory Committee member because he has profound knowledge concerning governance structure and HR systems required for the sound growth of SHIFT.



Tetsujiro Nakagaki, Outside Director and Audit and Supervisory Committee member (appointed November 2020)

*Appointed outside director in November 2014 and appointed outside director and Audit and Supervisory Committee member in November 2020

Committees ——— Audit & Supervisory Committee and Nomination Committee

Reasons for appointment —— As the managing partner of a venture capital located in Silicon Valley, he handled investment in IT companies and management guidance. He was appointed because he would play an adequate role in the determination of important matters and the supervision of operational execution in SHIFT's pursuit for growth in Japan and overseas based on his profound knowledge of these fields.

We participated in SHIFT for passion and excitement for the future.



THREE-OUTSIDE DIRECTOR DISCUSSION

KENJI CHISHIKI
Outside Director

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YUSUKE ARAI
Outside Director

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TETSUJIRO NAKAGAKI
Outside Director

SHIFT has business experts participate as outside directors. What are the thoughts of outside directors and how do they think about SHIFT's board of directors? This section reports a discussion by three of the outside directors.

Q1 Why did you become an outside director for SHIFT?

Chishiki: Because I felt strongly that SHIFT was a company with ambition. SHIFT has aimed at and earnestly pursued the breakthrough of multiple subcontracting structures as a bad habit of the IT industry, the improvement of the labor environment for engineers, and the increase of labor productivity in Japan. I felt their passion. SHIFT seemed quite human, even though it is an IT company. I assumed the position of an outside director because I liked their sincerity toward their employees and clients.

Nakagaki: I have known about SHIFT for more than 10 years. Because I was interested in its business model, I invested in SHIFT as a venture capital investor before it was listed and have established a relationship in the position of observer. In those days, SHIFT already stood out among existing players not only for its business model but also for its technological capabilities. I imagined that it would attain the net sales target of 100 billion yen. There was also a large market, an indispensable factor for becoming a mega startup, and SHIFT seemed capable of acquiring the market. I could not help but get excited about these conditions.

Venture capital investors usually sell stocks immediately after the company becomes listed. However, I wanted to own SHIFT's stocks over a long period of time. At the same time, I wanted to see the course of SHIFT's success and to be of help in its efforts. This was when I was asked to become an outside director, and I was pleased to assume the position.



(From left) Kenji Chishiki, Outside Director and Audit and Supervisory Committee member; Tetsujiro Nakagaki, Outside Director and Audit and Supervisory Committee member; and Yusuke Arai, Outside Director and Audit and Supervisory Committee member

Arai: One of the reasons that I assumed the position of an outside director was that I had the intuition that SHIFT would continue proceeding ahead without slowing down. Because the company is accelerating its efforts, I felt the importance of slowing and believed that my career and specialty in audits and consulting as a public certified accountant would contribute to SHIFT. I also felt that this was an opportunity for me to substantially develop along with SHIFT. This is why I decided to assume the position as an outside director.

Q2 What is the atmosphere of SHIFT's board of directors?

We have head-on discussions that are frank, passionate, and ambitious.

Chishiki: We have essential discussions that are frank and head-on not ceremonious. I consider this atmosphere as extremely favorable. The board rarely has ceremonious discussions or agendas, such as confirming matters that are already known to the executives. Instead, important topics make up a large part of discussions. They discuss the acceptability of strategies, governance issues, and risks at an extremely high level.

Arai: Our discussions start at 9:00 in the morning and continue over lunch until 13:00. They certainly have vigorous discussions. While I worked for an audit firm, I had many occasions to see the minutes of meetings of the board of directors at client companies. In those minutes, I rarely saw opinions from outside directors. At SHIFT, specific and detailed materials are prepared so that outside directors can also participate in the discussion. This consideration also helps outside directors voluntarily and proactively express their opinions. I suppose that SHIFT has an environment that facilitates the vigorous sessions of the Board.



Yusuke Arai, Outside Director and Audit and Supervisory Committee member, appointed November 2021

Nakagaki: While they have extremely meaningful discussions, the agenda items have varied as the company phase changes. The agenda items used to be simple before the listing, such as how to earn net sales and profit, but have changed to funding, M&As, and governance after the listing. We are taking a longer time to discuss governance, but the discussion is directed positively toward growth instead of applying the brakes. All directors stay extremely passionate and ambitious just as before. I consider the Board as well balanced without losing impetus while ensuring a good defense.

SHIFT entered a phase unknown to anybody, including Mr. Tange. He thinks extremely profoundly, assuming that he does not know the phase. He aims to have multi-faceted discussions by inviting specialists to be directors as those with expertise in fields where he has little knowledge. This is why the board has increasingly more profound discussions year after year.

Q3 What are the key points in SHIFT's governance?

It is important to continue taking on challenges with proactive governance.

Chishiki: It is certain that M&A will continue to be the key driver in SHIFT's growth. SHIFT will have an increasing number of M&A projects. To be honest, not all projects will turn out successful. The point is to avoid fatal errors. Excessive prudence will slow growth. Instead of making excessive decisions to avoid M&As, it is necessary to think through the risks of avoiding projects.

SHIFT may make errors, but it should learn lessons from minor errors to avoid fatal ones. I suppose that proactive governance to achieve growth while taking sound risks will become an important keyword for SHIFT in the coming years.

Nakagaki: It is certain that both M&As and new businesses are indispensable for SHIFT's growth. Reports from overseas provide data that companies that continuously undertake M&As achieve higher growth rates, even if M&A projects turn out unsuccessful. We continuously bring new ideas and taking on new challenges generate synergy in an existing company and lead to growth. This is proven by SHIFT's growth rate. This is another reason that it is important to continue taking new challenges and accepting certain risks. In the meantime, from the perspective of governance, it is necessary to recognize the viewpoints of the stock market and shareholders and provide persuasive explanation.

A company must have accountability and explain what they seek to do, its subsequent successes and failures, and that the company has followed due process. Funding is required for M&As and to invest in new projects. Therefore, a company needs to obtain the trust of many people. The obtainment of public trust is directly linked to the competitiveness of a company. This is another reason why I feel that SHIFT has entered a stage different from several years ago.



Kenji Chishiki, Outside Director and Audit and Supervisory Committee member, appointed November 2019
*Appointed outside director in November 2018 and appointed outside director and Audit and Supervisory Committee member in November 2019

Arai: I think that, at present, SHIFT can grow as far as it steps on the accelerator. Because it has an extremely large engine, it can speed up. On the other hand, this signifies that substantial damage may result in the event of an accident. Even a minor setback may spread such damage. This is why SHIFT needs to prepare a governance structure as a brake that matches the extremely large engine before speeding up. To prepare a governance structure as a brake, SHIFT established systems for internal control. SHIFT intends to continue upgrad-



Tetsujiro Nakagaki, Outside Director and Audit and Supervisory Committee member, appointed November 2020
*Appointed outside director in November 2014 and appointed outside director and Audit and Supervisory Committee member in November 2020

ing its existing systems while having periodic group auditor meetings for information sharing. In the meantime, I think that a company needs to step on the accelerator and take risks in order to achieve growth. Therefore, I refrain from making comments that may apply the brakes without necessity. At discussions of SHIFT's board of directors, the founding members and the newly participating internal directors vigorously exchange opinions. This mutual control among the internal directors is another reassuring point.

Q4 What are the strengths and requirements in SHIFT's governance structure?

Further upgrade the structure leveraging the positively quite human nature of SHIFT

Chishiki: Mr. Tange's capabilities of perceiving business opportunities, generating ideas, and configuring businesses are a source of SHIFT's growth. By combining these attributes with outside directors who have accumulated a diverse range of knowledge, SHIFT has strengthened its ability to actualize business and identify and hedge risks and problems. This is the very strength of SHIFT's governance. In the coming years, it will be important for SHIFT to maintain these strengths in good balance while pursuing sound growth with a focus on proactive governance.

Nakagaki: As Mr. Chishiki mentioned, SHIFT is a company that is positively human. While it requires employees to be specialists in business, SHIFT has a culture to develop the company with the participation of all members. Almost all unfavorable factors are caused by humans. From this viewpoint, loyalty among humans functions as the best defense. Therefore, I think that this strength should be valued.

In the coming years, SHIFT will enter new phases every several years. This is why it needs to strengthen its governance structure while seeking further support from outside. When a company introduces a new method from outside, it results in substantial discomfort in the beginning. SHIFT has continued advancing without being cowered by such discomfort. This very advancement is another strength of SHIFT, and I hope that the company continues taking on challenges.

I mentioned earlier that SHIFT is a company that

is positively human. However, if the SHIFT Group continues to become larger, communication among humans will have some limitations. To ensure that a minor setback will not spread damage, it will become necessary in the coming years to foster a culture of rules and systems, instead of SHIFT binding group companies as subordinates.

Arai: As the others mentioned in the response to Question 2, I believe that the greatest strengths of SHIFT's governance structure are that all directors earnestly participate in discussions and that a forum is provided for such earnest discussions. In addition, each member has high awareness of legal compliance. This is another point that provides assurance to SHIFT's systems. I have seen many companies to date, and few companies have an attitude of maintaining effective meetings of the board of directors like SHIFT.

In the coming years, an increasing number of companies will join the SHIFT Group. As the group expands with first-tier, second-tier, third-tier, and other subsidiaries, it will become increasingly more difficult for SHIFT's philosophy to cascade down. It is just like the taste of a ramen noodle restaurant changes as it increases franchise stores. It is critical to establish a system for maintaining a shared mindset throughout the SHIFT Group. I hope to be of help in this process.

Q5 What are the strengths and requirements of SHIFT's board members? What ambitions do you have for the future?

High-performing human resources headed in a shared direction to achieve further growth

Chishiki: A team of diverse and high-performing specialists—this is SHIFT's board. It is not a friendly circle consisting of founding members, rather the board comprises diverse human resources from companies that represent Japan. This is the strength of SHIFT's board of directors. High-performing human resources participate from outside to test their capabilities, and they spare no effort to share their know-how and skills at work to accumulate within the company. Inspired by them, all employees also develop. I believe that this circle should be established. An ideal circle is being established at SHIFT. I hope that SHIFT continues to be a company where many high-performing human resources gather while considering that SHIFT seems interesting and hoping to achieve personal growth at SHIFT, thereby forming a favorable circle.

Nakagaki: It is certain that changes have been led by the board of directors as human resources who have proven track records participate in SHIFT as directors and outside directors. Not matter what changes are made, the positive atmosphere never changes. The founding and other existing members even seek to further upgrade the board with new members. The new members also seek to further improve SHIFT with their expertise. The very strength of SHIFT is that all members are headed and advancing in a shared direction. For many years, I thought that this established culture of SHIFT has been extremely favorable.

There have not yet been many opportunities for outside directors of SHIFT to meet the executive managers of its group companies for vigorous discussions. It would be ideal if an atmosphere similar to that of SHIFT's discussions of the board of directors were to be generated at group companies as well. When the group companies switch to an atmosphere similar to that at SHIFT, the SHIFT Group will be able to further accelerate its growth.

Arai: The strengths and requirements of SHIFT's board members are as described by Mr. Chishiki and Mr. Nakagaki. My requirement is to establish a braking mechanism so that the executive managers of SHIFT can rest assured while they step on the accelerator. I think this would be the very key. By establishing an organization that has a good balance between the accelerator and the brakes as above, I strongly hope to further develop the SHIFT Group.

Stock information

Stock overview (as of August 31, 2022)

Total number of authorized shares — 50,000,000
Total number of outstanding shares — 17,811,114
Shareholders — 5,151

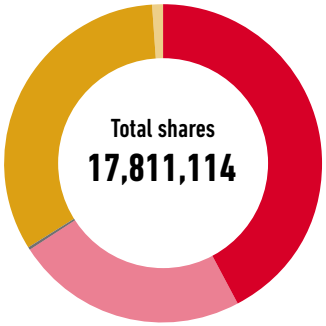
Top 10 shareholders

Shareholder	Shares held (shares)	Shareholding ratio (%)
Masaru Tange	5,606,800	31.47
The Master Trust Bank of Japan, Ltd. (trust accounts)	2,057,900	11.55
Custody Bank of Japan, Ltd. (trust accounts)	1,318,300	7.40
SSBTC Client Omnibus Account	948,306	5.32
State Street Bank and Trust Company 505001	512,580	2.87
State Street Bank and Trust Company 505025	318,800	1.78
The Dai-ichi Life Insurance Company, Limited.	187,900	1.05
The Master Trust Bank of Japan, Ltd. (stock grant ESOP trust accounts: 75876)	187,100	1.05
State Street Bank and Trust Company 505303	178,300	1.00
Motoya Kobayashi	162,400	0.91

(Note) The shareholding ratio is calculated deducting 345 treasury stocks.

Share distribution

- Individuals — 7,539,073 (42.33%)
- Financial institutions — 4,230,700 (23.75%)
- Other domestic corporations — 26,119 (0.15%)
- Overseas corporations — 5,865,606 (32.93%)
- Financial traders — 149,271 (0.84%)
- Treasury stocks — 345 (0.00%)



Corporate profile

Corporate profile (as of August 31, 2022)

Trade name — SHIFT Inc.
Representative — Masaru Tange, President and CEO
Head Office — Masonic 39 MT Building, 2-4-5 Azabudai, Minato-ku, Tokyo 106-0041 Japan
Tel: +81-3-6809-1128
Established — September 2005
Capital — 77 million yen
Businesses — software quality assurance and testing
Patents acquired — Patent No. 5787404 (Japanese patent), devices and programs for generating test specifications for computer programs, and seven others

Inquiries

IR Office, PR and IR Department, SHIFT Inc.

This report was issued in April 2023.