SHIFT (3697 JP)

Revival of Honored Valuation

Executive Summary

24 January 2025

SHIFT is an IT service company experiencing rapid growth, with a competitive edge in its core software testing services. We believe SHIFT's strengths lie in its ability to achieve sustained high growth through continuous self-transformation and M&A, supported by a high quality management team capable of delivering strong cash flow (CF) generation. In FY2024, the company faced a deceleration in sales growth and reported its first decline in operating profit in seven years, resulting in a severe de-rating in valuation. However, looking ahead to FY2025 and beyond, CGS anticipates over 20% topline CAGR and improved profitability, driving significant growth in cash EPS.

In this report, we will explain the company's equity story with following three key points.

① Sustainable Sales Growth of Over 20% from FY2025 Onward

At CGS, we project an average ARR growth rate of over 20% for the next five years, surpassing the market consensus of the mid-teen range. We think this forecast is reasonable thanks to their enhanced agility through the transition to a divisional organizational structure, the expansion of professional talent, and effective M&As.

② Projected Cash EPS Growth Rate of 35% Over the Next Five Years

We expect the company to achieve an operating profit margin close to 15% by FY2027, one of the targets outlined in its mid-term vision, "SHIFT2000". Both gross profit margin and SG&A/Sales ratio are expected to improve. Additionally, the full-scale adoption of AI in test design is anticipated to contribute significantly to future performance.

③ Upside Potential in the Multiple per 1% Profit Growth

CGS analyzes the valuation per 1% profit growth through four key drivers: capital efficiency, CF conversion rate, profit growth volatility, and the quality of capital allocation. Our analysis shows that SHIFT has a considerable upside potential in its EV/EBITDA multiple, given the company's high profit growth, strong FCF conversion, and the recovery of its cash ROIC. Additionally, as Cash ROIC enters a recovery cycle and the spread with WACC widens over the medium term, this is expected to further contribute to valuation expansion.

We think the stock market currently views the company's growth recovery scenario with a degree of uncertainty. Thus it's important for SHIT to present clear and convincing evidence to dispel these concerns, which leads to a re-evaluation of the equity value. CGS remains confident in the company's resurgence and the revival of its high quality growth trajectory.

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SHIFT, Inc.（3697 JP）

Share Price (23 Jan 2025）	JPY 1,356
Market Cap	US$ 2.3 billion

FY (Aug-end)	F25E	F26E	F27E	F28E
Cash EPS	44	59	80	101
Cash P/E	31x	23x	17x	13x
EV/EBITDA	18x	13x	10x	7x
P/B	8x	6x	5x	4x
Div. Yield	0%	0%	0%	0%
ROE	25%	26%	28%	27%
Cash ROIC	40%	47%	55%	58%
FCF Conv.*	121%	100%	95%	96%
Incr. ROI**	59%	49%	88%	70%

*FCF Conversion = FCF ÷ Net Profit

**Incremental ROI = Incremental Change in OpCF ÷ Incremental Change in Invested Capital

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**CGS Estimates*

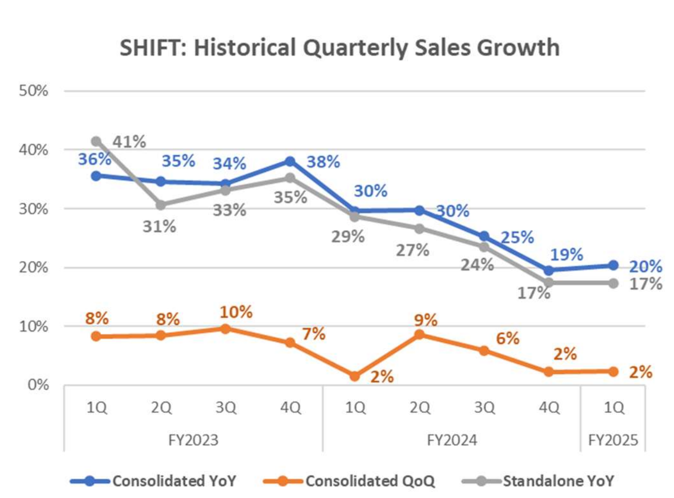
Equity Story ①: CGS Forecasts Over 20% Annual Sales Growth in the Medium Term

Summary: While SHIFT's revenue growth rate had a slowdown in FY2024, CGS forecasts an annual growth rate of 21-22% from FY2025 through FY2027. This projection is driven by their organizational reform to a divisional structure, an acceleration of growth in high-value-added segments through professional talent expansion, continuous contribution from M&A, and new BPO business contribution.

○ In FY2024, SHIFT faced a slowdown in revenue growth and a decline in gross profit, primarily due to a mismatch between customer needs and internal human resources, which led to lower utilization rates. This resulted in a severe decline in the company's stock price and valuation. Regarding the drop in gross profit margin, as indicated in the Q1 FY2025 earnings report, the issue is largely being resolved. However, the slowdown in revenue growth may continue to be a concern for the stock market going forward.

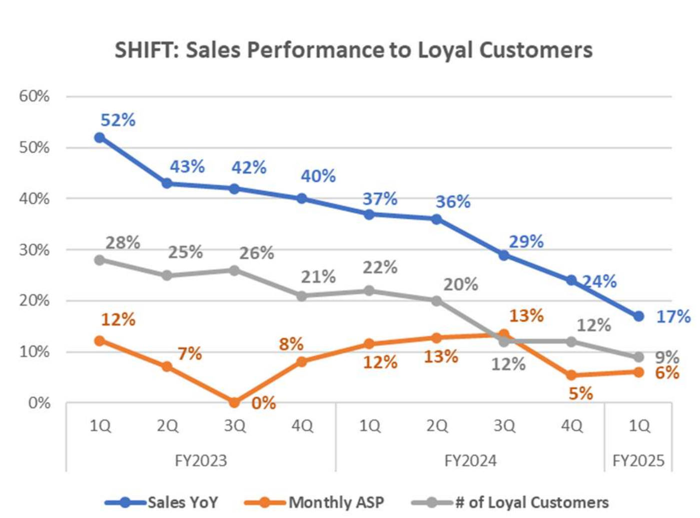
Ex.1 and 2 show the company's quarterly revenue growth rates and sales performance for loyal customers, who accounted for 86% of revenue in Q4 FY2024. The consolidated revenue growth rate year-over-year (YoY) for Q4 FY2024 was 19%, while standalone growth was 17%, and revenue growth from loyal customers was 24%. For Q1 FY2025, consolidated revenue growth YoY was 20%, standalone growth remained at 17%, and revenue growth from loyal customers also stood at 17%, indicating levels similar to those in Q4 FY2024. While FY2025 Q1 growth rates are largely consistent with FY2024 Q4 levels, the stagnation in loyal customer growth may reinforce concerns over sustained revenue acceleration in the near term. Addressing these challenges will be crucial for rebuilding market confidence and driving a revaluation of SHIFT's stock.

Ex.1: SHIFT's sales growth rate has slowed down in FY24



Note: Standalone sales exclude education service and software product sales.
Source: CGS – Based on Company Data

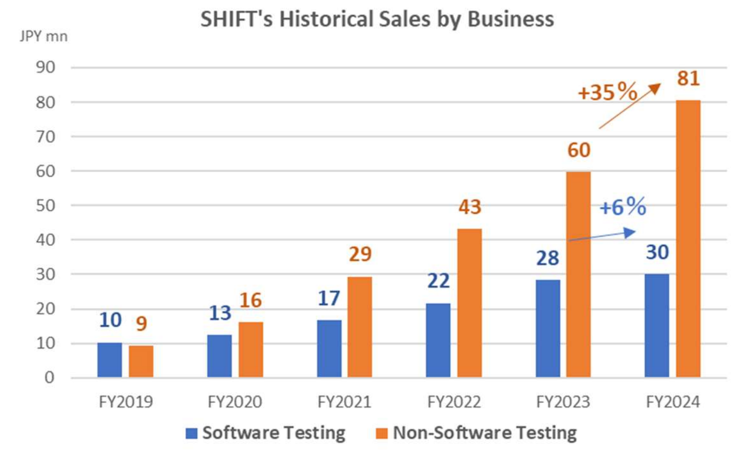
Ex.2: Sales to loyal customers had a similar trend in FY24



Source: CGS – Based on Company Data

○ As shown in Ex. 3, the slowdown in software testing revenue growth had a particularly significant impact in FY2024. CGS estimates that the growth rate for software testing revenue was limited to 5–6%, compared to an average growth rate of nearly 30% between FY2020 and FY2023.

Ex. 3: Software testing revenue had a big slowdown in FY24



Source: CGS – Based on Company Data

In contrast, non-software testing revenue is estimated to have maintained growth in the mid-30% range. The sluggish growth in software testing appears to have been driven by several factors, including an increased focus on securing non-testing projects, which may have diverted attention on software testing business development, and a temporary easing of labor shortages among clients following the post-COVID recovery.

○ CGS considers the future revenue growth rate to be a critical factor from a valuation perspective. We expect the revenue growth rate to be around 21–22% annually from FY2025 to FY2027. While topline growth rates exceeding 30%, as observed in recent years, may be difficult to sustain due to the company's increased scale, CGS believes that revenue growth exceeding 20%, including contributions from M&A, is achievable.

The breakdown of this forecast is detailed in Ex.4. Contributions from M&A are projected to add ¥6 billion annually to revenue, while new business initiatives, such as BPO, are expected to generate an additional ¥8.1 billion over the next three years. The remaining growth is attributed to organic revenue growth, contributing 15–16% annually. These assumptions are considered reasonable rather than overly optimistic.

Ex.4: CGS' topline forecast breakdown

(JPY mn)	FY2025E	FY2026E	FY2027E
Revenue	134,334	163,678	200,025
Growth Rate	21%	22%	22%
Growth Value	23,707	29,343	36,347
Organic Growth	16,107	20,543	26,647
Organic Contribution	15%	15%	16%
BPO Business	1,600	2,800	3,700
M&A	6,000	6,000	6,000

Source: CGS

Ex. 5 also show our forecast on the organic revenue drivers through FY2027. Until FY2024, when SHIFT was pursuing its "SHIFT1000" target, the primary growth driver was the increase in the number of engineers. Starting in FY2025, however, the focus is expected to shift toward enhancing the quality of engineers (upper-layer engineers) and increasing customer unit prices on the demand side.

It is important to note that these projections carry a degree of uncertainty. CGS assumes a monthly customer unit price of ¥11.7 million for FY2027 (representing a 3-year CAGR of 12%), while SHIFT's own medium-term plan for FY2026–2027, "SHIFT2000", sets a target of ¥11 million (equivalent to a 9% CAGR over three years).

Ex. 5: CGS' forecast on organic growth drivers

	Unit	FY2019	FY2024	CAGR（FY19-24）	FY2027E	CAGR（FY24－27E）
Consolidated Revenue	JPY mn	19,531	110,627	41%	200,025	22%
Standalone Revenue	JPY mn	14,252	70,919	38%	124,000	20%
# of Engineers	People	1,880	6,398	**28%**	9,200	**13%**
Avg. Engineer Price	JPY 1,000 per month	651	956	8%	1,170	7%
Avg. Customer Unit Price	JPY 1,000 per month	5,244	8,380	**10%**	11,700	**12%**

Source: CGS

○ The following sections details the key drivers of SHIFT's revenue growth, including I) drivers of organic growth, II) contributions from M&A, III) BPO business leveraging "Wasurenai".

○ We think the main drivers of the recovery in organic revenue growth are expected to be: the impact of transitioning to a divisional organizational structure, and the expansion of professional talent within the company.

1. The impact of transitioning to a divisional organizational structure

○ Starting in FY2025, SHIFT transitioned its organizational structure to a divisional system. Previously, the company had adopted a matrix structure, with the sales and service departments operating along intersecting vertical and horizontal axes. Under the new system, the company has been reorganized into 10 divisions, each dedicated to a specific industry. Within each division, both sales and delivery functions are embedded, effectively operating as 10 separate companies. Each division has a revenue target of ¥5 billion to ¥15 billion, equivalent to SHIFT's overall scale several years ago. The objectives of this reorganization are:

a. To enhance agility and managerial awareness through delegated authority,
b. To deepen industry-specific understanding and strategic focus, and
c. To increase communication with management.

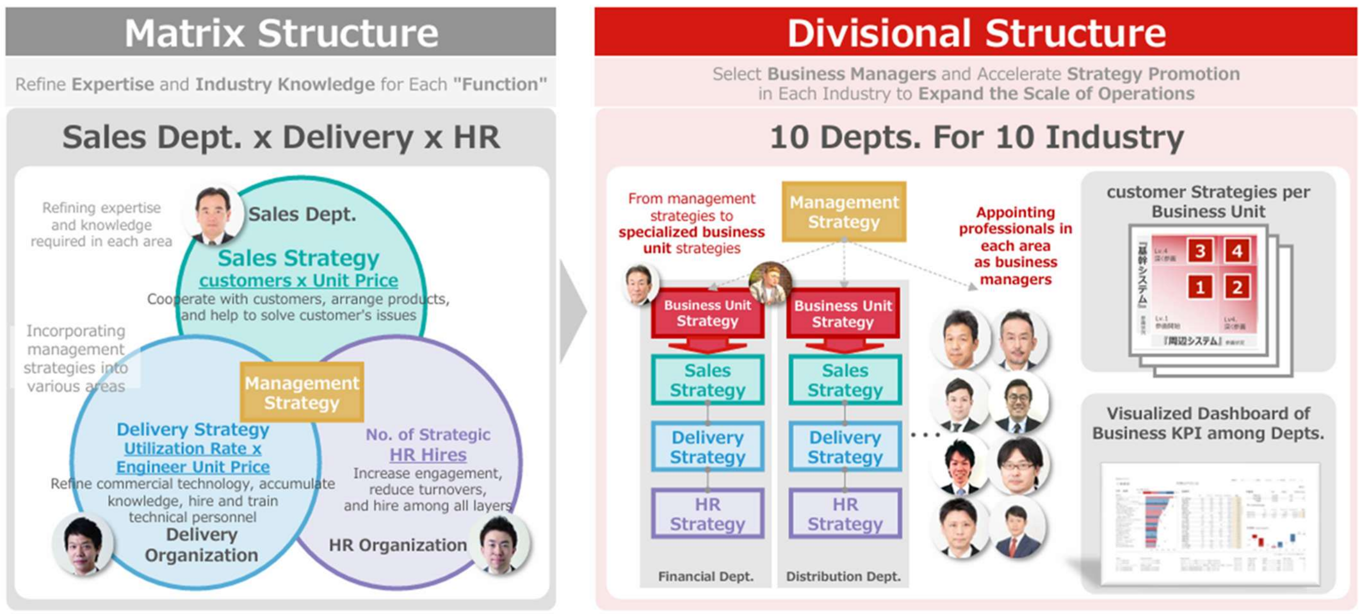
We believe this transition represents a significant effort to address and overcome the challenges associated with the company's growing scale.

○ The transition to the divisional structure is also supported by the specialization and enhancement of expertise in sales, services, and human resources that was achieved under the matrix structure over the past several years. By reorganizing teams along industry lines and simplifying roles, SHIFT aims to make it easier for team members to fully commit to their business areas and maximize their potential. Additionally, the company plans to strengthen sales efforts within each industry division, with a particular focus on revitalizing the software testing segment, which experienced slower growth in FY2024.

○ At the same time, SHIFT has implemented initiatives to "sharpen its tools." In this initiative, the company established the Solutions Division and the Sales Promotion Division, which provide expertise and technical resources across all business units. The Solutions Division focuses on advancing cutting-edge technologies such as Agile methodologies and AI, operating independently from the individual divisions to develop these capabilities further. The Sales Promotion Division is dedicated to enhancing sales capabilities across the organization by developing training programs, creating efficiency frameworks, and disseminating best practices company-wide. These initiatives aim to strengthen SHIFT's competitive edge while fostering organizational excellence.

○ Starting from the first half of FY2025, SHIFT also revised its evaluation system. In addition to the traditional evaluation criteria based on sales volume managed by individual members, the company introduced sales growth rate as a new evaluation axis. The revised system is designed to align with the strengths and potential of each team member, recognizing both the ability to maintain significant existing volumes and the capability to start small and drive substantial growth. This approach aims to establish a management framework capable of sustaining high growth rates. That said, FY2025 may still represent a period of trial and error, and there may be a time lag before these changes are fully reflected in accelerated order intake and corresponding financial performance.

Ex. 6: Transitioning from matrix structure to divisional structure



Source: Company Material

Ex. 7: Sales trend by industry show strong growth in public, auto, and enterprise segment

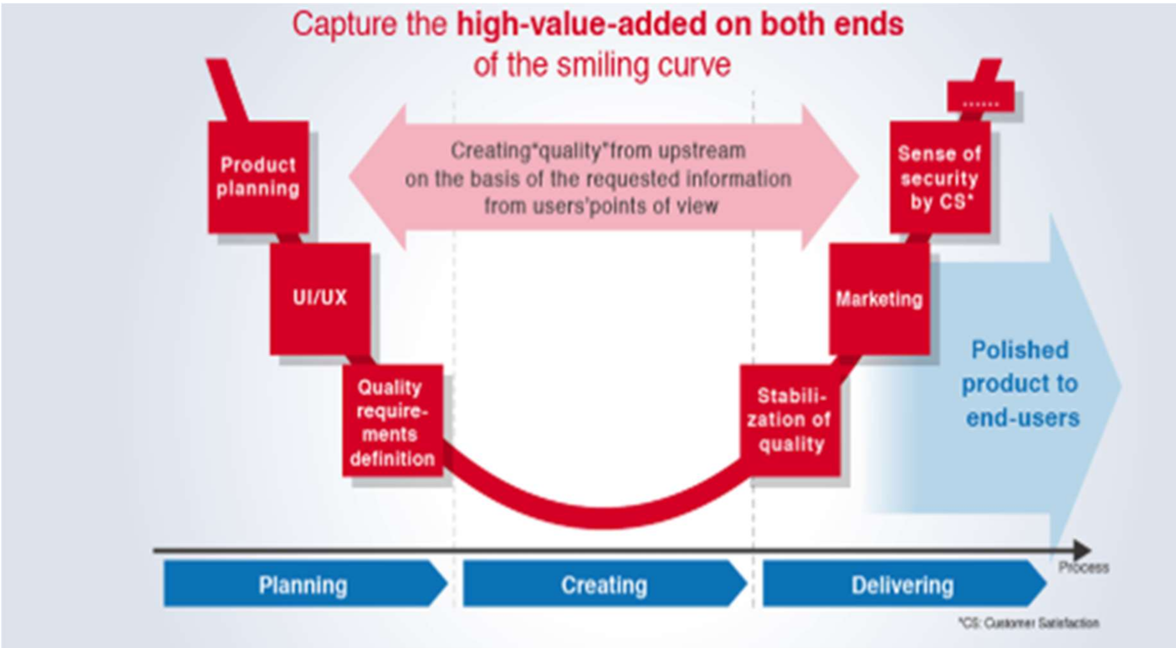
		FY2021	FY2022		FY2023		FY2024		3Y	Mix
	JPY Billion			Growth %		Growth %		Growth %	CAGR	
Banks	Banks	2.4	3.6	54%	4.7	29%	5.9	25%	35%	5%
Public	**Government, Municipal, Public Infrastructure**	**1.2**	**1.9**	**64%**	**2.5**	**30%**	**4.6**	**84%**	**57%**	**4%**
Insurance/Securities	Insurance, Securities, Cryptocurrency	1.6	2.2	37%	4	78%	4.6	16%	42%	4%
Chain Store	Convenience Store	1.4	2.6	84%	3.7	43%	3.7	2%	38%	3%
Retail Distribution	Retail, Specialty Store, Logisitcs	2.4	3.8	57%	4.8	27%	5.5	13%	32%	5%
Media Contents	Internet, Advertisement, Media	1.9	2.9	51%	3.2	8%	3.1	-3%	18%	3%
Platform	Internet Service, E-Commerce	1.4	2.2	55%	2.8	25%	3.6	31%	37%	3%
HR	Staffing, Nursing, Education, HR Tech	1.5	2.1	41%	2.9	38%	3	4%	26%	3%
Communication	Communication Infrastructure	3.3	4.3	32%	5.1	18%	6.2	21%	23%	6%
Industrial	Energy, Social Infrastructure	2.4	3.8	59%	4.6	21%	6.2	35%	37%	6%
Auto	**Auto OEM, Auto Parts**	**1.3**	**2.4**	**85%**	**4.7**	**97%**	**7.1**	**49%**	**76%**	**6%**
Software Package	Accounting, Sales, HR, CRM	2	2.3	15%	3.5	51%	4.3	23%	29%	4%
Enterprise	**SAP, Materials, Chemicals**	**1.8**	**3.2**	**75%**	**5.8**	**80%**	**7.7**	**33%**	**62%**	**7%**
Entertainment	Social, Consumer Game	2.8	3.9	39%	5.5	42%	5.6	2%	26%	5%
Group Companies		17.5	23.6	35%	30.6	29%	39.7	31%	31%	36%
Total		**44.9**	**64.8**	**44%**	**88.4**	**36%**	**110.8**	**25%**	**35%**	**100%**

Source: CGS – Based on Company Material

2. The expansion of professional talent within the company

○ SHIFT is actively pursuing the mid-career recruitment of professional talent. Leveraging the expertise and data accumulated through its software testing operations, the company is strengthening its capabilities to secure projects in the planning phase of the value chain, as illustrated in Ex. 8's Smile Curve. This initiative aims to expand SHIFT's scale while enhancing its value-added offerings. In line with this strategy, one of SHIFT's key performance indicators (KPIs) is to focus on increasing the customer unit price for its loyal customers.

Ex. 8: SHIFT aims to expand its scale through the high value-added upstream projects

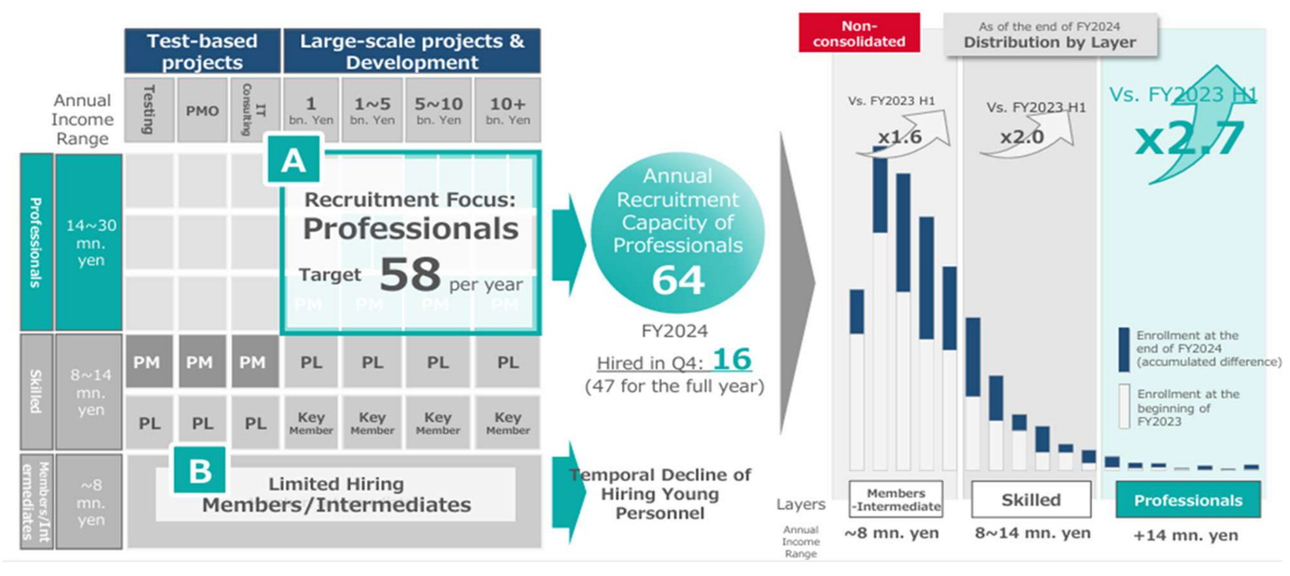


Source: Company Material

〇 However, we think that in addition to the proposal capabilities of account managers—who handle project management on a customer-by-customer basis and engage in addressing the challenges of existing customers through proposals and negotiations—the contributions of professional talent with deep industry-specific knowledge and strong proposal and planning skills have become increasingly essential.

〇 In FY2024, due to the decline in utilization rates, the recruitment of general team members and mid-level talent was scaled back from the middle of the fiscal year. However, the hiring of professional talent was intensified. The impact of this strategic focus is expected to yield results starting in FY2025 and beyond.

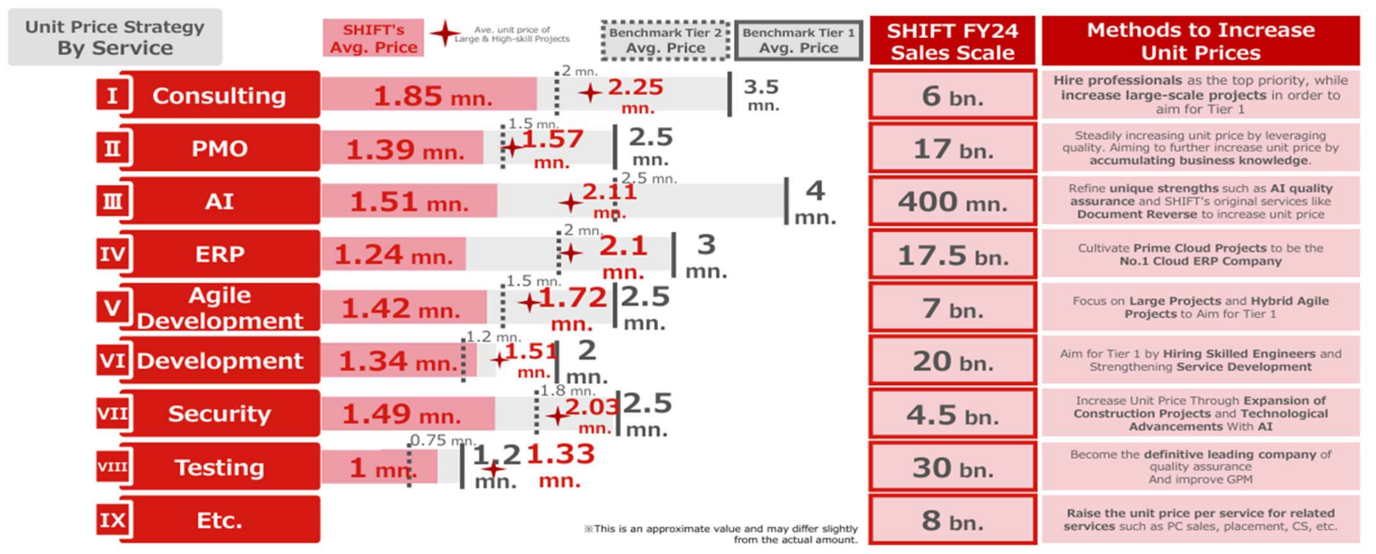
Ex. 9: SHIFT is strengthening professional talent recruiting



Source; Company Material

〇 The breakdown of revenue by service category for FY2024 is presented in Ex. 10. Service categories expected to make significant contributions moving forward include consulting, PMO (Project Management Office; a specialized department or team overseeing and supporting project management), ERP (Enterprise Resource Planning; systems that integrate and manage resources such as people, materials, money, and information to improve efficiency and facilitate swift decision-making), and agile development. We also summarized an overview of these services along with specific examples in Ex. 11.

Ex. 10: Business service that are expected to drive growth include consulting, PMO, ERP, and agile development.



Source: Company Material

Ex. 11: Overview of SHIFT's business service and project examples

Service	Overview	Specific Examples
Consulting	Leveraging expertise in quality management and test management, SHIFT supports large-scale projects and business improvements. Services encompass IT strategy formulation, business process optimization, and assistance with new technology adoption, providing specialized approaches across various domains.	**ERP Implementation Support for Manufacturing Industry**: Assisted in pre-implementation test planning, conducted thorough operational testing, resulting in a 20% reduction in implementation risks.
		DX Promotion for Financial Institutions: Supported a major bank's digital transformation by aiding in new system implementation and user testing, ensuring stable system operations.
		Business Process Improvement in Retail Industry: Conducted simulation testing in a supply chain optimization project, achieving a 30% reduction in delivery lead times.
		Reform Support for Telecommunications Operators: Introduced test automation for a new communication management solution, reducing operational costs by 20%.
PMO	Participates in PMO roles, providing support for smooth project operations through test management and other services. This includes multi-vendor control, progress management, risk assessment, and coordination among stakeholders, ensuring efficient and reliable outcomes even in complex projects.	**Overhaul of Financial Systems**: Integrated test management into PMO activities, achieving visibility in test progress and quality improvement, leading to a 20% reduction in project duration.
		Public Sector System Development: Took charge of integrated testing in a government project, significantly reducing post-release defects.
		IT Projects in Manufacturing: Conducted load testing for a new vehicle management system, ensuring system stability.
		Healthcare System Implementation Support: Assisted in pre-release testing of a medical data management system, reducing post-implementation issues by 30%.
ERP	Recognizing the frequent occurrence of issues during ERP implementations or upgrades, SHIFT utilizes its extensive experience in quality management and testing to support smooth system launches. The company specializes in system integration tailored to cloud-based ERP and multi-location environments.	**Cloud ERP Implementation for Retail Industry**: Managed comprehensive testing during ERP implementation, identifying and resolving inter-system issues, leading to a 30% reduction in operational costs.
		ERP Optimization for Pharmaceutical Companies: Supported data migration testing during ERP integration for a pharmaceutical company with overseas branches, improving monthly closing speeds by 20%.
		Efficiency Enhancement in Logistics Industry: Conducted performance testing on a delivery planning system, enhancing operational stability.
		ERP Integration in Food Industry: Reduced post-integration defects by 50% through test automation.
Agile Development	Providing optimized processes for projects requiring rapid releases and market entry by utilizing Scrum and hybrid agile methodologies through agile development.	**EC Platform Enhancement**: Conducted usability testing during a UX revamp for a major e-commerce company, leading to significant improvements based on user feedback.
		Financial Application Development: Performed comprehensive pre-release testing for a bank's mobile banking application, substantially reducing post-launch issues.
		Digital Platform Development in the Education Sector: Conducted thorough QA testing for a teaching material sharing system, resulting in a twofold increase in user registrations.

Source: CGS

II） Contributions from M&A Activities

〇 M&A has made a significant contribution to SHIFT’s growth. CGS forecasts that M&A will generate ¥6 billion annually in new revenue between FY2025 and FY2027, and ¥10 billion annually between FY2028 and FY2029. The track record of SHIFT’s M&A activity is detailed in Ex. 13–15.

As of FY2024, SHIFT had completed 31 acquisitions, with a cumulative M&A investment amount of approximately ¥25 billion according to its securities filings (¥26.5 billion based on company disclosures). Excluding the ¥7 billion in cash held by the acquired companies, the cash-flow-based investment amount stands at approximately ¥18 billion.

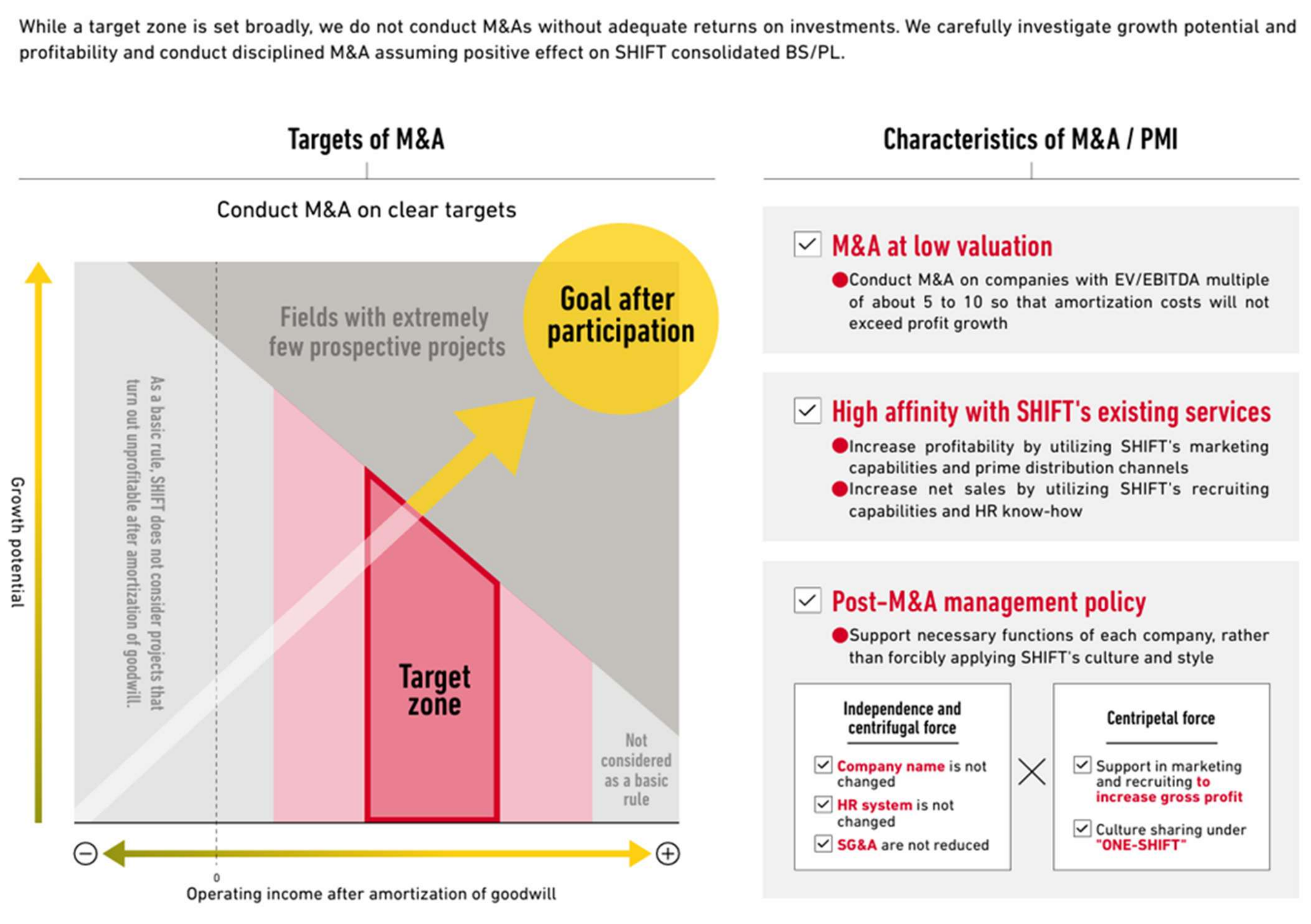
M&A contributed ¥4.5 billion in EBITDA in FY2024, as disclosed in the company’s earnings presentation materials. Based on this, the M&A EV/EBITDA ratio, including synergies, can be calculated at approximately 4x (¥4.5 billion / ¥18 billion), indicating strong M&A discipline and execution. In terms of revenue, the aggregate pre-acquisition revenue of the acquired companies was ¥27.3 billion, while the revenue from acquired companies in FY2024 reached ¥40.8 billion, representing an increase of approximately 50%. This suggests that revenue growth, recruitment expansion, and productivity improvements have collectively contributed to these synergies.

〇 SHIFT's M&A policy, as outlined in Ex. 12, is focused on acquiring companies that can achieve operating profitability after amortization of goodwill (amortized over 5–10 years). The company prioritizes acquisitions that expand the business and technical domains of the SHIFT Group and contribute as valuable assets to the organization.

The IT industry in Japan comprises approximately 15,000 companies, of which around 5,000 are led by CEOs aged 60 or older, indicating a high demand for business succession. Annually, about 200 M&A deals occur within the industry. According to SHIFT’s business presentation, the average EV/EBITDA multiple for M&A transactions in the IT industry over the past year was 11x.

Up until FY2024, SHIFT primarily targeted acquisitions with an EV/EBITDA multiple of 8x or lower. However, given the consistent realization of synergies, the company has indicated a willingness to consider transactions at the higher end of this range. For deals where significant synergies are anticipated, SHIFT may even consider acquisitions with multiples closer to the industry average of 11x. Thus, investors may need to evaluate M&A outcomes more carefully than before, particularly given the potential to accept higher valuations in future acquisitions.

Ex. 12: SHIFT's M&A Strategy



Source: Company Material

○ For FY2025, SHIFT has already completed or announced six M&A transactions (see Ex. 16). The disclosed investment amount for these deals totals ¥2.7 billion, with the pre-acquisition revenue of the acquired companies amounting to ¥4.3 billion. Considering the full-year contributions from companies acquired in the previous fiscal year, CGS's forecast of ¥6 billion in annual revenue growth driven by M&A may prove to be conservative.

Ex. 13: Analyzing SHIFT's M&A Contribution to total revenue

	Consolidated			Standalone			Difference (= M&A)			
JPY mn	Revenue	Growth %	Growth	Revenue	Growth %	Growth	Revenue	Growth %	Growth	Contribution
FY2024	110,627	26%	22,597	70,919	23%	13,271	39,708	31%	9,326	41%
FY2023	88,030	36%	23,157	57,648	40%	16,382	30,382	29%	6,775	29%
FY2022	64,873	41%	18,869	41,266	50%	13,670	23,607	28%	5,199	28%
FY2021	46,004	60%	17,292	27,596	42%	8,112	18,408	99%	9,180	53%
FY2020	28,712	47%	9,181	19,484	37%	5,232	9,228	75%	3,949	43%
FY2019	19,531	53%	6,739	14,252	48%	4,650	5,279	65%	2,089	31%
FY2018	12,792	56%	4,618	9,602	75%	4,105	3,190	19%	513	11%
FY2017	8,174	48%	2,662	5,497	11%	557	2,677	368%	2,105	79%
FY2016	5,512	68%	2,223	4,940	52%	1,680	572	1872%	543	24%
FY2015	3,289	53%	1,138	3,260	56%	1,168	29	-51%	-30	

Source: CGS

Ex. 14: Historical M&A contribution to operating profit and EBITDA

JPY mn	Operating Profit					EBITDA				
	Consolidated	Consolidated Growth %	Consolidated Growth Value	Standalone	Difference (=M&A)	Consolidated	Consolidated Growth %	Consolidated Growth Value	Standalone	Difference (=M&A)
FY2024	10,537	-9%	**-1,028**	8,081	**2,456**	13,423	1%	**138**	8,727	**4,696**
FY2023	11,565	67%	**4,652**	8,626	**2,939**	13,285	59%	**4,914**	8,862	**4,423**
FY2022	6,913	73%	**2,919**	4,889	**2,024**	8,371	61%	**3,173**	5,151	**3,220**
FY2021	3,994	70%	**1,641**	3,407	**587**	5,198	76%	**2,252**	3,624	**1,574**
FY2020	2,353	53%	**813**	1,552	**801**	2,946	58%	**1,080**	1,779	**1,167**
FY2019	1,540	28%	**340**	1,113	**427**	1,866	32%	**454**	1,251	**615**
FY2018	1,200	207%	**809**	810	**390**	1,412	151%	**850**	920	**492**
FY2017	391	-25%	**-127**	190	**201**	562	-8%	**-47**	281	**281**
FY2016	518	62%	**199**	563	**-45**	609	64%	**237**	639	**-30**
FY2015	319	157%	**195**	322	**-3**	372	125%	**207**	374	**-2**

Source: CGS

Ex. 15: Analyzing SHIFT's historical M&A shows their past average M&A multiple below 1x P/S

JPY mn	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	Total	FY2025E
M&A Value:											
Acquisition Value	**272**	**851**	**2**	**1,437**	**3,092**	**5,353**	**360**	**5,306**	**8,029**	**24,722**	**2,670**
Cash Value of Acquired Company	96	304	0	377	441	841	47	1,442	3,404	6,952	
Net Capital Invested (Cash Out)	**176**	**547**	**2**	**1,060**	**2,651**	**4,512**	**312**	**3,864**	**4,624**	**17,768**	
Goodwill on M&A:											
Goodwill Value	217	584	0	663	2,084	4,429	184	3,201	2,215	**13,577**	
Goodwill % in Acquisition Value	**80%**	**69%**		**46%**	**67%**	**83%**		**60%**	**28%**	**55%**	
Goodwill % in Net Capital Invested	**123%**	**107%**		**63%**	**79%**	**98%**		**83%**	**48%**	**76%**	
M&A Multiple:											
Disclosed Revenue of Acquired Company	722	2,451	0	1,840	4,052	9,313	0	5,026	3,907	**27,311**	4,312
P/S (Acquisition Value Base)	**0.4x**	**0.3x**		**0.8x**	**0.8x**	**0.6x**		**1.1x**	**2.1x**	**0.9x**	**0.6x**
P/S (Net Capital Invested Base)	**0.2x**	**0.2x**		**0.6x**	**0.7x**	**0.5x**		**0.8x**	**1.2x**	**0.7x**	

Note: FY2025E figure includes 5 acquisitions disclosed as of January 2025. Source: CGS

Ex. 16: SHIFT's past M&A track record (excluding minority investments)

Fiscal Year	Acquisition Date	Acquired Company	Overview	Acquisition Price	Pre-Acquisition Sales
FY2016	Jan-16	Libero Project	Verification and app development for mobile carriers	Not disclosed (67.0% s	¥722 million
FY2017	Sep-16	MethodoLogic	System planning and design, IT strategy support	Not disclosed (66.7% s	¥197 million
	Nov-16	BARISTRIDE GROUP	IT solutions and consulting	¥804 million	¥2,254 million
FY2018	May-18	Airitech	System consulting and troubleshooting	Not disclosed (57.1% s	—
FY2019	Jan-19	Assion	Web marketing and A/B testing	¥350 million	¥311 million
	Jan-19	Saunashi	Web planning, production, and consulting	Not disclosed	—
	Mar-19	SystemI	System consulting and financial industry system development	¥900 million	¥1,529 million
FY2020	Dec-19	BUNSEKIYA	Data analysis and system integration	Not disclosed	¥570 million
	Feb-20	Realglobe Automated	IT automation business (51% stake)	¥199 million (51% stak	¥44 million
	Mar-20	Nadia and xbs	Web/app development, design, and consulting	¥1,706 million	¥2,121 million
	Apr-20	SNC	PC reuse, kitting, and helpdesk services	¥908 million	¥1,317 million
FY2021	Sep-20	CLUTCH	Web marketing	¥854 million	¥1,969 million
	Sep-20	HOPES	IT consulting, ERP implementation support, and system development	¥3,058 million	¥5,070 million
	Nov-20	Survage System	IT infrastructure design, construction, operation, and maintenance	Not disclosed	¥192 million
	Jan-21	VISH	Cloud services for education and system development	Not disclosed	¥625 million
	Mar-21	A-STAR	Freelance engineer matching platform	Not disclosed	¥1,143 million
	Jul-21	DICO	Localization and game development	Not disclosed	¥314 million
FY2022	Nov-21	Airitech (full ownership)	Increased stake from 57.1% to 100% via stock swap	Approximately ¥230 m	—
	Jul-22	IFTEC's IT Solutions Business	System development, IT infrastructure construction, and operation	Not disclosed	—
	Jun-22	DeMiA	App development, AI/data analysis, and engineer training	Not disclosed	—
FY2023	Oct-22	Kronos	Web system/app development and DX solutions	Not disclosed	¥568 million
	Mar-23	Careersystems	Software development, IT infrastructure construction, and maintenance	¥1,170 million	¥806 million
	May-23	WAHL+CASE Business	Bilingual talent recruitment for startups and tech industries	¥1,000 million	¥557 million
	Jun-23	CREIT SOLUTIONS	ERP-centric system development, maintenance, and operation	¥1,757 million	¥1,458 million
	Jun-23	CIMTECH	Business development support, web development, network construction, and contracted development	¥500 million	¥743 million
	Jun-23	NETWORK TECHNOS	Software contracted development	¥210 million	¥422 million
	Jul-23	TRUST BRAIN	Medical software development and logistics solutions	¥370 million	¥472 million
FY2024	Oct-23	HumanSystem	System development, infrastructure construction, and consulting	¥1,399 million	¥1,562 million
	Oct-23	Infinic	Nursery school operation and consulting	¥560 million	¥342 million
	Feb-24	Networld	System development and system integration	Not disclosed	¥675 million
	Feb-24	ClubNets Group	Point systems and LINE-based promotion services	¥5,750 million	¥1,328 million
FY2025	Sep-24	Manage Business	System operation infrastructure and system development	¥920 million	¥1,304 million
	Oct-24	LINER Business of Phone Appli	Succession of Phone Appli's LINER business	—	—
	Oct-24	OZsoft	Cloud infrastructure construction and Java application development	Not disclosed	¥289 million
	Mar-25	KINSHA	Game debugging, staffing, and translation services	¥1,272 million	¥1,052 million
	Mar-25	MOZOO	3DCG animation production	¥90 million	¥138 million
	Jul-25	Infratop	Programming school operation and career support	¥390 million	¥1,529 million

Source: CGS – Based on Company Disclosure

III） BPO business mediated by Wasurenai

○ The expansion of business process outsourcing (BPO) services facilitated by the free SaaS management tool "Wasurenai" is also expected to contribute significantly to SHIFT's growth over the medium to long term.

○ "Wasurenai" is a tool designed for IT departments to visualize and centrally manage multiple SaaS service accounts, contract information, and usage status. SHIFT began offering this tool for free in October 2023. The tool provides several benefits to companies, including:

a. Visualization of underutilized SaaS services,

b. Cost reduction through contract revisions aligned with actual usage,
c. Enhanced security by detecting accounts with unknown users, and
d. Improved decision-making efficiency by leveraging usage data.

While similar services are offered by other companies, they are typically fee-based, making SHIFT's free offering a distinctive value proposition.

○ The purpose of "Wasurenai" is to strengthen SHIFT's connection with companies' IT departments and expand its BPO (Business Process Outsourcing) business targeted at these departments. In many companies, IT departments face a shortage of personnel, with approximately 70% of their workload dedicated to defensive, back-office tasks, such as maintenance, operational management, internal inquiries, and issue resolution. As a result, they struggle to allocate sufficient time to the proactive tasks demanded by management, such as new system planning and driving digital transformation (DX). SHIFT aims to address this by outsourcing a portion of these defensive tasks through its BPO services, thereby enabling IT departments to focus more on strategic, forward-looking activities.

○ Currently, SHIFT's BPO services primarily focus on outsourcing tasks such as help desk support and kitting (the setup and preparation of IT equipment like computers and mobile devices for use). However, during the initial stages of BPO implementation, SHIFT also conducts assessments of the current state of IT departments, visualizes workflows, and provides improvement proposals. As a result, there is potential for the expansion of service offerings in the future. Moreover, it appears that SHIFT has begun to receive BPO requests from departments outside of IT, broadening the scope of its services beyond IT departments in some companies.

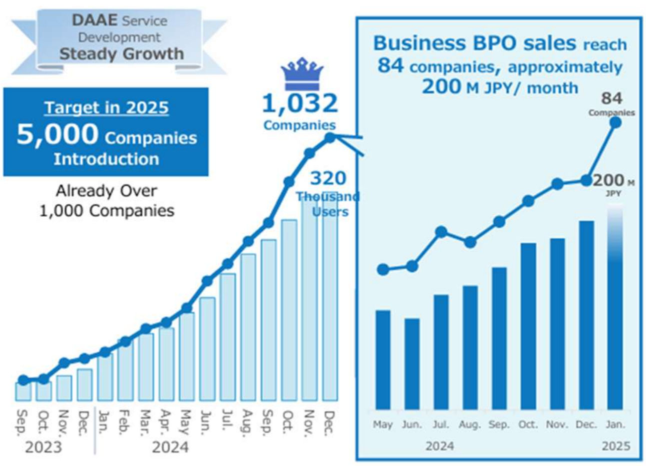
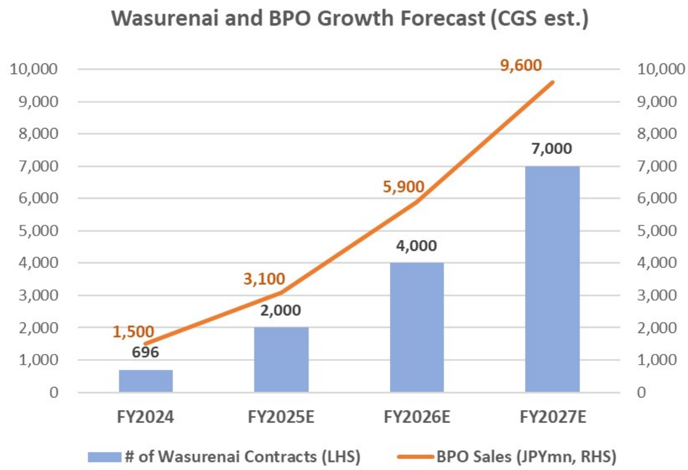
○ BPO is typically a labor-intensive business and does not inherently achieve high productivity. However, SHIFT is expected to significantly improve operational efficiency by leveraging its strengths in systemization as well as utilizing RPA (Robotic Process Automation) and AI to automate repetitive tasks. Additionally, by analyzing data from its clients, SHIFT can provide ongoing support for continuous workflow improvements, further enhancing the value of its BPO services.

○ Since its launch just over a year ago, Wasurenai has achieved significant traction, acquiring 1,032 companies and 320,000 users. SHIFT aims to expand this to 5,000 companies by the end of FY2025. The BPO business, which began in April 2024, has also seen a strong start. As of January 2025, it has secured 84 corporate clients and reached a monthly revenue of ¥200 million. The BPO business recorded approximately ¥1.5 billion in revenue for FY2024, highlighting its rapid growth trajectory.

○ CGS projects BPO revenue to grow to ¥3.1 billion in FY2025 and expand further to ¥9.6 billion by FY2027. These forecasts are based on the following assumptions:

- Number of Wasurenai subscribers: 7,000 companies by the end of FY2027.
- Number of BPO clients: 500 companies by the end of FY2027.
- Monthly revenue per client: ¥2 million (compared to ¥2.4 million per client in January 2025).

Additionally, SHIFT has a long-term vision to achieve 100,000 Wasurenai subscribers within five years, reflecting its ambitious growth strategy. This vision underscores the company's commitment to scaling its BPO business and leveraging Wasurenai as a key driver for sustained revenue expansion.

Ex. 17: Monthly Performance of Wasurenai and BPO	Ex. 18: CGS' forecast on Wasurenai and BPO growth
 Source: Company Material	 Source: CGS

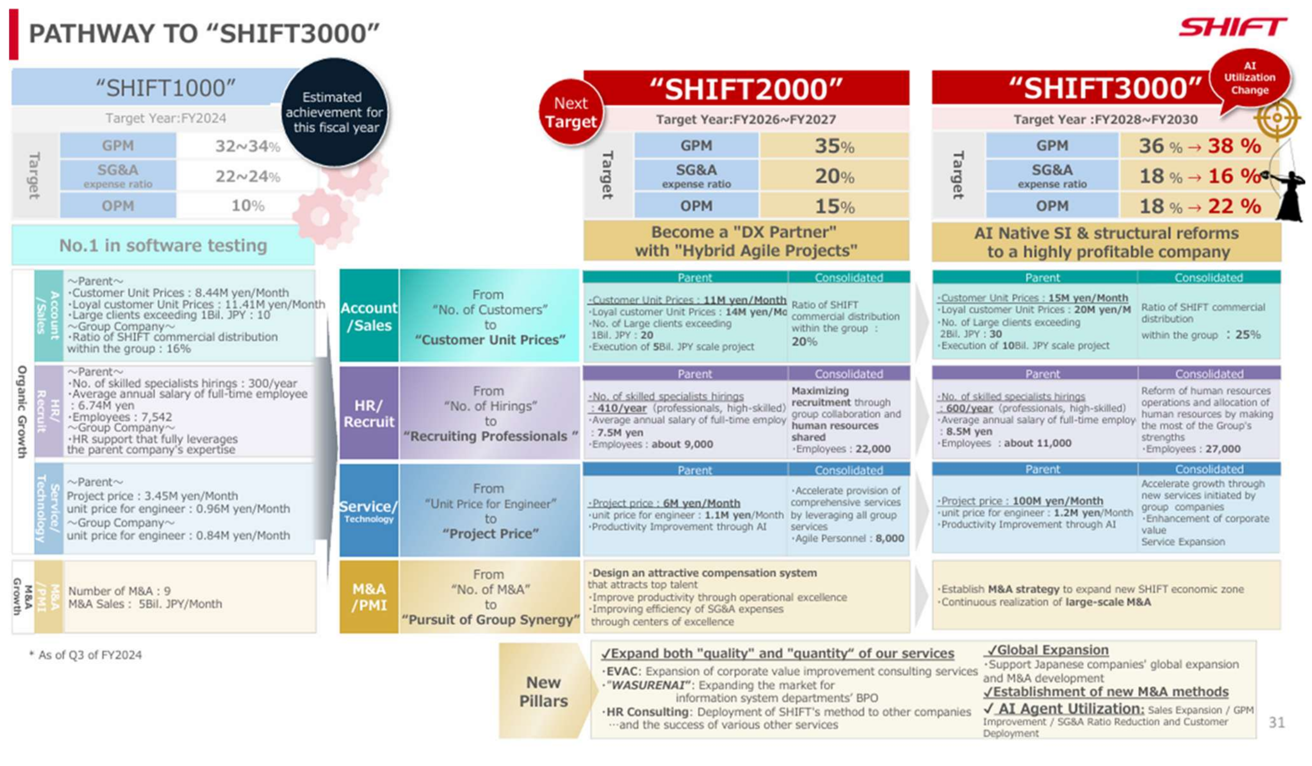
Equity Story ②: CGS Believes the Target of 15% Operating Profit Margin by FY2027 is Achievable, with 35% Cash EPS CAGR Over the Next Five Years

Summary: We expect the company to achieve an operating profit margin close to 15% by FY2027, one of the targets outlined in its mid-term vision, "SHIFT2000". Both gross profit margin and SG&A/Sales ratio are expected to improve. Additionally, the full-scale adoption of AI in test design is anticipated to contribute significantly to future performance.

○ SHIFT achieved its "SHIFT1000" target of over ¥100 billion in revenue a year ahead of the original schedule in FY2024. The company has set ambitious mid- to long-term plans, aiming for over ¥200 billion in revenue under "SHIFT2000" by FY2026–FY2027 and over ¥300 billion in revenue under "SHIFT3000" by FY2028–FY2030.

○ Under "SHIFT2000," the company has set numerical targets, including an operating profit margin (OPM) of 15%, a gross profit margin of 35%, and an SG&A-to-sales ratio of 20%. While achieving these targets is not an easy task and the impact of M&A remains uncertain, we believe that if SHIFT can restore its top-line growth, these goals are well within reach.

Ex. 19: Overview of SHIFT2000 and SHIFT3000



Source: Company Material

○ CGS' financial forecast for the next five years is summarized in Ex. 20. Over this period, CGS projects a compound annual growth rate (CAGR) of 20% for revenue, 30% for EBITDA, 32% for operating profit before goodwill amortization, and 35% for cash EPS. Regarding the revenue growth, CGS anticipates maintaining a growth rate of slightly over 20% from FY2025 to FY2027, followed by a gradual deceleration thereafter.

For M&A, the following assumptions have been incorporated into CGS's forecast:

FY2025–FY2027:

- **Cash-flow-based investment amount**: ¥5 billion annually.
- **Acquisition multiple**: EV/EBITDA of 8x.
- **EBITDA contribution from acquisitions**: ¥630 million annually.
- **Revenue contribution**: ¥6 billion annually.
- **Goodwill**: ¥4 billion per year, amortized over 10 years.

FY2028–FY2029:

- **Cash-flow-based investment amount**: ¥8 billion annually.
- **Acquisition multiple**: EV/EBITDA of 8x.
- **EBITDA contribution from acquisitions**: ¥1 billion annually.
- **Revenue contribution**: ¥10 billion annually.
- **Goodwill**: ¥6.4 billion per year, amortized over 10 years.

Ex. 20: CGS' financial forecast

JPY mn	FY2024	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E	CAGR*
Revenue	110,627	134,334	163,678	200,025	237,658	280,291	20%
Revenue Growth %	25.7%	21.4%	21.8%	22.2%	18.8%	17.9%	
Gross Margin	32.0%	34.2%	34.5%	35.0%	35.3%	35.6%	
SG&A/Sales %	22.4%	22.7%	21.7%	20.3%	19.7%	19.3%	
EBITDA	**13,423**	**19,223**	**25,207**	**33,523**	**41,572**	**50,500**	**30%**
OP ex. Goodwill Amort.	**11,988**	**17,317**	**23,150**	**31,510**	**39,585**	**48,368**	**32%**
OP	**10,537**	**15,394**	**21,082**	**29,333**	**37,132**	**45,765**	**34%**
OPM	9.5%	11.5%	12.9%	14.7%	15.6%	16.3%	
Net Profit	5,715	9,673	13,440	18,932	24,066	29,801	39%
Net Profit ex. Goodwill Amort.	7,166	11,596	15,508	21,109	26,520	32,404	35%
EPS	**22**	**37**	**51**	**72**	**91**	**113**	**39%**
Cash EPS	**27**	**44**	**59**	**80**	**101**	**123**	**35%**
BPS	131	168	219	291	382	496	30%
ROE	18%	25%	26%	28%	27%	26%	
Net Cash per Share	43	68	100	150	207	290	

** All the per share items above reflect 1:15 stock split efffective on 24 January 2025.*

*CAGR from FY2024 through FY2029E

Source: CGS

○ The forecast for the next three years compared to market consensus is shown in Ex. 21. While it is unclear to what extent the market consensus has factored in contributions from M&A, it suggests that the market does not anticipate the achievement of "SHIFT2000" targets (both revenue and OPM) by FY2027.

○ CGS's forecast for an OPM of 14.7% in FY2027 is based on an assumed gross profit margin of 35.0%. While the gross profit margin declined to 32.0% in FY2024, it is expected to recover to 34.2% in FY2025, comparable to the FY2023 level. In FY2025 Q1, the gross profit margin improved by 2.1 percentage points year-on-year, reaching

33.2%. From FY2026 onward, the gross profit margin is projected to increase gradually by 0.4 percentage points per year, aligning with a recovery trajectory towards the FY2027 target.

Ex. 21: Market consensus is more conservative than CGS forecast

JPY mn	FY2025E	FY2026E	FY2027E
Revenue			
CGS Est.	134,334	163,678	200,025
Consensus	132,378	158,282	184,340
Difference	**1%**	**3%**	**9%**
Operating Profit			
CGS Est.	15,394	21,082	29,333
Consensus	14,400	18,615	23,411
Difference	**7%**	**13%**	**25%**

Note: Consensus as of 20 January 2025. Source: Bloomberg

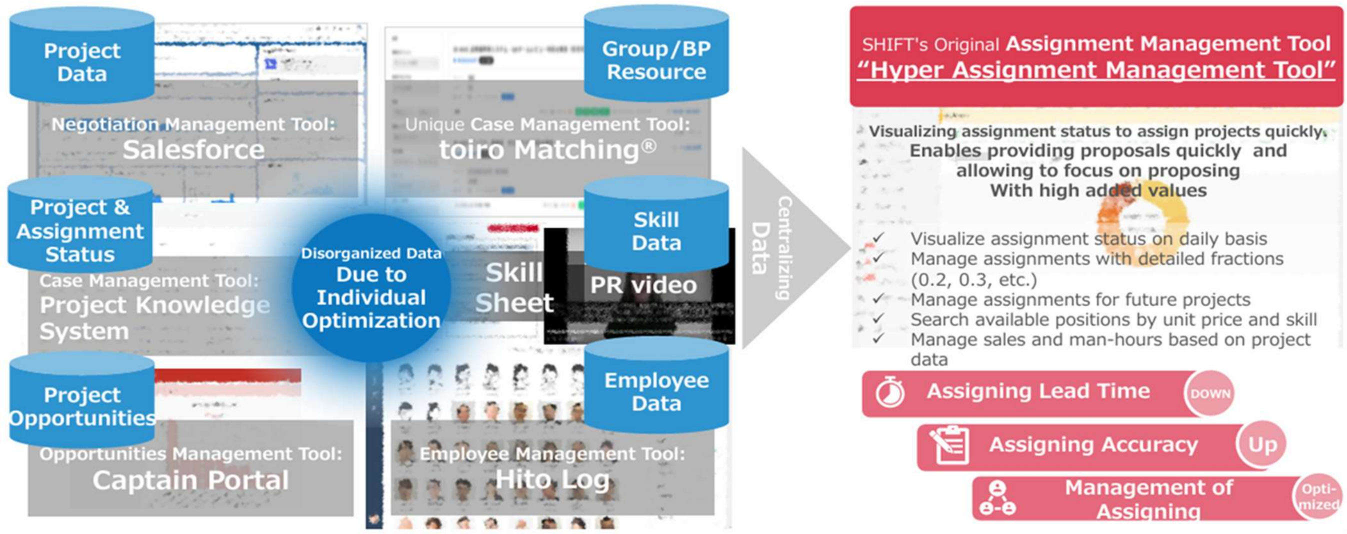
○ The following three factors are expected to contribute to an increase in the gross profit margin:

1. **Stabilization of utilization rates** through the use of assignment tools and other management systems.
2. **Improved unit price mix**, driven by the scaling up of projects and the strengthening of upstream segments such as consulting and PMO.
3. **Benefits from AI utilization**, which is expected to enhance efficiency and productivity.

However, the expansion of the BPO business is anticipated to exert downward pressure on the gross profit margin. Additionally, certain M&A deals could also contribute to a decline in the gross profit margin. That said, we discuss each of these drivers in detail below.

1. Stabilization of utilization rates through the use of assignment tools is a key factor. The decline in the gross profit margin in FY2024 was primarily due to a drop in utilization rates for services such as software testing, caused by an increase in hiring and a mismatch between demand and supply, which led to a rise in unutilized capacity. While utilization rates returned to normal levels after August 2024, SHIFT has implemented measures to prevent a recurrence of this issue. The company now uses a proprietary assignment management tool to monitor utilization rates daily, supported by an assignment matching team that ensures effective resource allocation.

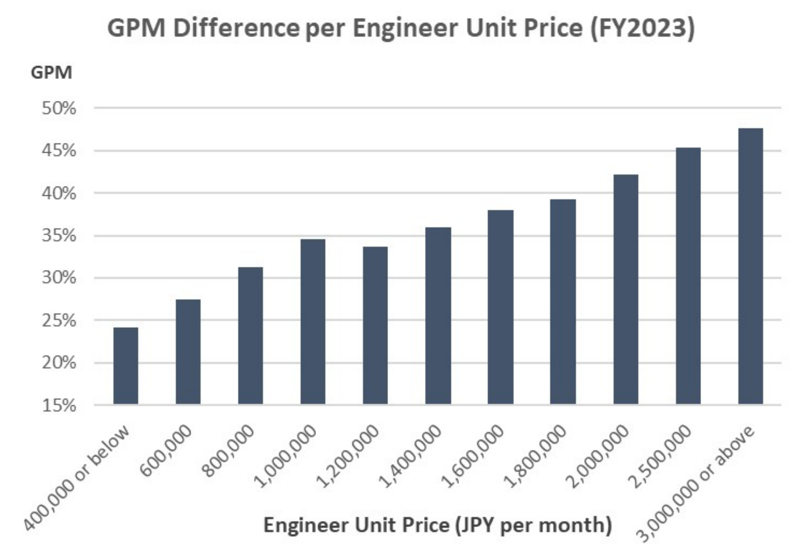
Ex.22: SHIFT's assignment management tool virtualizes status on a daily basis



Source: Company Material

2. Improvement in the unit price mix is expected through the scaling up of projects and the strengthening of upstream segments. With the enhancement of organizational capacity through the increased recruitment of professional talent, as previously mentioned, growth is anticipated in areas such as consulting, PMO, ERP, and agile development. As illustrated in Ex. 23, the gross profit margin is projected to rise in proportion to the increase in engineer unit prices, further contributing to overall profitability.

Ex. 23: GPM expands with higher engineer unit price

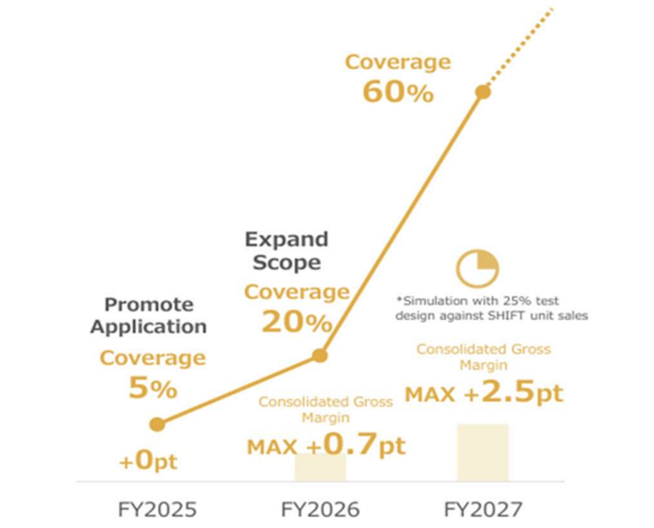


Source: CGS – Based on Company Material

3. Benefits of AI: SHIFT is conducting proof-of-concept experiments by integrating AI assistant functionality into its test design tools. Previously, the test design process required manual consideration and documentation for every item. With the introduction of AI, the workflow shifts to using AI for initial item identification followed by manual tuning. Results from these experiments demonstrated up to a 40% improvement in efficiency. SHIFT is progressing with implementation, targeting 60% application to projects within the next three years. According to disclosures in their earnings presentation, this initiative has the potential to contribute up to 2.5 percentage points to the consolidated gross profit margin. However, as this initiative is still in its early stages and carries inherent uncertainties, CGS has not factored significant effects from this into its forecasts.

(Overview of the Test Design Process)
Software testing is conducted through the following process: Test Planning → Test Design → Test Implementation → Test Execution → Test Reporting. Test design is a process in which the specific details of the tests are determined and is considered particularly important as it dictates the quality and comprehensiveness of the testing. Specifically, this includes defining the test scope, identifying test perspectives, setting test conditions, and creating test cases.

Ex. 24: SHIFT targets to improve GPM by 2.5%pt through AI



Source* Company Material

○ Regarding SG&A costs, We expect SG&A/Sales ratio to be 20.3% in FY2027, a decrease of 2.1 percentage points from 22.4% in FY2024. However, when excluding goodwill amortization, the SG&A/Sales ratio is expected to be 19.2%, only 0.5 percentage points lower than the 19.7% in FY2023. This forecast assumes that office-related expenses, which increased in FY2024 due to the relocation to a new headquarters, and the proportion of recruitment costs, which will stabilize as hiring normalizes, will decrease as a percentage of revenue, driven by sales growth.

Ex. 25: CGS' forecast on SG&A cost

vs Sales %	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025E	FY2026E	FY2027E
SG&A Cost	**23.9%**	**23.0%**	**21.6%**	**21.9%**	**20.9%**	**22.4%**	**22.7%**	**21.7%**	**20.3%**
Labor	11.4%	11.7%	10.5%	10.2%	10.2%	11.3%	11.6%	11.5%	11.5%
Recruiting	4.7%	5.1%	4.7%	5.8%	4.6%	4.1%	3.8%	3.4%	3.0%
Advertisement	1.3%	0.3%	0.1%	0.3%	0.2%	0.3%	0.3%	0.2%	0.2%
Rent	1.3%	1.2%	1.0%	0.8%	1.1%	1.3%	1.2%	1.0%	0.8%
Compensation	1.0%	0.7%	0.7%	0.5%	0.8%	0.7%	0.6%	0.5%	0.4%
Goodwill	0.6%	0.9%	1.7%	1.4%	1.2%	1.3%	1.4%	1.3%	1.1%
Depreciation	0.3%	0.3%	0.2%	0.2%	0.2%	0.5%	0.6%	0.5%	0.4%
Other	3.3%	2.7%	2.6%	2.6%	2.6%	2.9%	3.3%	3.2%	2.8%
SG&A Cost ex. Goodwill	**23.3%**	**22.1%**	**19.9%**	**20.5%**	**19.7%**	**21.1%**	**21.3%**	**20.4%**	**19.2%**
Strategic Cost	**11.7%**	**12.3%**	**12.2%**	**13.4%**	**13.2%**	**14.5%**	**14.8%**	**13.8%**	**12.7%**
Recruiting		7.0%		7.7%	6.1%	5.5%	4.9%	4.3%	3.7%
Sales & Marketing		3.1%		2.9%	3.0%	3.2%	3.3%	3.4%	3.2%
Education				0.2%	0.8%	0.9%	1.0%	1.0%	0.9%
ES				0.8%	0.8%	0.9%	1.0%	1.0%	0.9%
Office-related				0.0%	0.0%	0.9%	0.9%	0.7%	0.6%
R&D				0.3%	0.6%	0.9%	1.1%	1.2%	1.2%
M&A		0.1%		1.5%	1.9%	2.4%	2.6%	2.3%	2.0%
Net Running Cost	**12.2%**	**10.6%**	**9.4%**	**8.3%**	**7.7%**	**8.0%**	**8.0%**	**7.8%**	**7.6%**

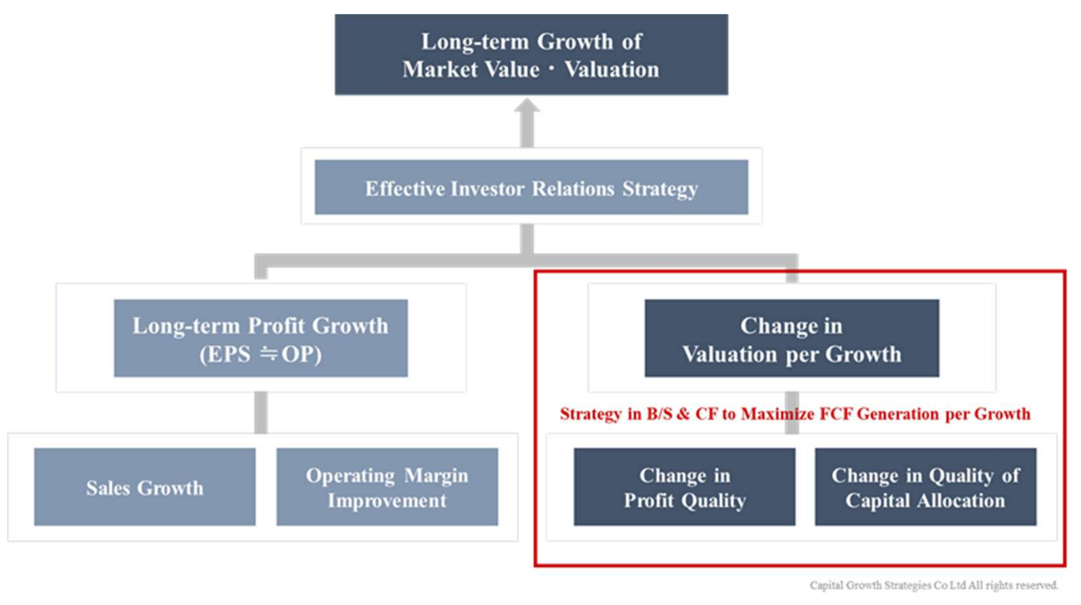
Source: CGS

Equity Story ③: Significant Upside Potential in the Multiple per 1% Profit Growth

Summary: CGS analyzes the valuation per 1% profit growth through four key drivers: capital efficiency, CF conversion rate, profit growth volatility, and the quality of capital allocation. Our analysis shows that SHIFT has a considerable upside potential in its EV/EBITDA multiple, given the company's high profit growth, strong FCF conversion, and the recovery of its cash ROIC. Additionally, as Cash ROIC enters a recovery cycle and the spread with WACC widens over the medium term, this is expected to further contribute to valuation expansion.

○ From here, we will consider what multiple the stock market may be willing to assign to SHIFT's expected growth rate in the future. In evaluating this, one key metric emphasized by CGS's management, based on their extensive experience as investment professionals over many years, is the multiple the stock market is willing to pay per 1% of the company's profit growth rate.

Ex. 26: CGS' approach to analyze long-term equity valuation



Source: CGS

○ Even among companies with an expected annual profit growth rate of 10% over the medium to long term, one company may be valued at 15x EV/EBITDA, while another may only receive a valuation of 7x EV/EBITDA. This discrepancy arises because the multiple the stock market assigns per 1% of profit growth varies between companies and can fluctuate over time. If investment decisions are made solely based on expected operating profit growth rates, it becomes difficult to understand the logic behind stock valuation compared to historical levels or peers. This is primarily due to differences in the valuation assigned per 1% profit growth rate. Thus, we believe this metric is a critical analytical factor particularly for long-term investors.

○ CGS defines the drivers of valuation per 1% profit growth rate as follows. These drivers can also be viewed as the factors influencing the free cash flow (FCF) generation capacity per 1% profit growth. Even for companies with the same annual profit growth rate of 10%, those with higher and more stable FCF generation capacity are granted higher multiples by the stock market. CGS uses this approach to analyze the fair multiples that the stock market may be willing to pay for each target company's long-term growth within the current interest rate environment. It should be noted that this analysis is based solely on CGS' independent perspective as long-term investors, without input or influence from the management of the companies analyzed on any of the valuation drivers or financial models.

Ex. 27: Key criteria that CGS focuses on to analyze equity valuation per 1% of profit growth

Profit Quality:

① Capital Efficiency

② Cash Flow Conversion

③ Volatility of Profit Growth

Quality of Capital Allocation:

④ Change in Cash Usage & Change in Incremental ROI (Cash Flow Base)

Source: CGS

○ Now, let's analyze these valuation drivers for SHIFT's profit growth per 1% over the medium to long term.

① Capital Efficiency

First, we examine capital efficiency, specifically ROIC and ROE. Among these, ROIC is particularly important as it evaluates how much of the projected operating cash flow (CF) needs to be reinvested into capital to generate expected profits—i.e. how much future free cash flow (FCF) can be retained. From the perspective of FCF generation per unit of profit growth, CGS places a great importance on ROIC.

Typically, ROIC is calculated using NOPAT (net operating profit after tax) as the numerator. However, in the case of SHIFT, where goodwill amortization impacts operating profit (due to Japanese accounting standards), it is necessary to adjust for this to evaluate the company's intrinsic CF generation ability. CGS defines this adjusted figure as Cash NOPAT and uses it to analyze Cash ROIC (ROIC adjusted for goodwill amortization).

Over the three years leading up to FY2023, SHIFT's Cash ROIC expanded significantly, rising from 27% to 47%, as the growth rate of Cash NOPAT outpaced the increase in invested capital. This improvement enhanced the company's ability to generate FCF per 1% of profit growth. In contrast, in FY2024, invested capital grew by approximately 50% within a single year, while operating margins deteriorated. Consequently, SHIFT's Cash ROIC declined to 34%, negatively impacting its valuation.

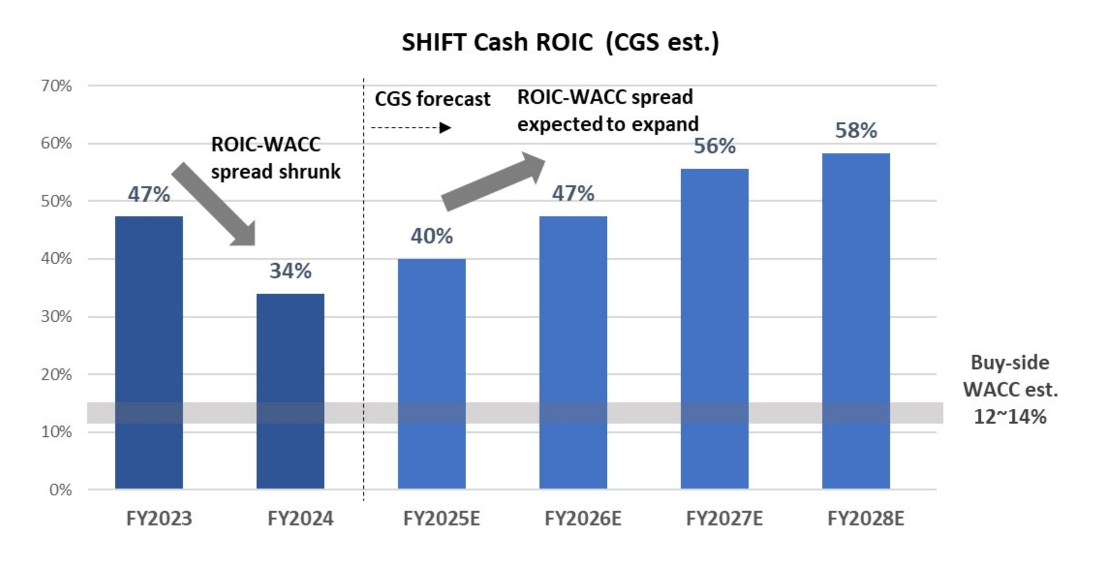
Looking ahead, CGS forecasts, as discussed in the previous section, that SHIFT's operating profit before goodwill amortization will grow at an annual rate of approximately 32%, increasing from ¥12 billion in FY2024 to approximately ¥39.6 billion by FY2028. This growth is attributed to the management's heightened focus on operating margins, with projections showing an increase in the operating profit margin before goodwill amortization from 10.8% in FY2024 to 16.7% by FY2028. This improvement will be driven by better utilization rates, enhanced unit price mix, AI adoption, and the operating leverage effect from double-digit revenue growth.

On the other hand, the denominator—invested capital—is expected to grow at an annual rate of 17%, rising from ¥25.7 billion in FY2024 to approximately ¥48.6 billion by FY2028, primarily due to increases in goodwill from M&A and working capital. Based on these assumptions, SHIFT is anticipated to re-enter a favorable cycle in which the growth rate of Cash NOPAT exceeds the pace of invested capital growth. CGS predicts that Cash ROIC will improve to approximately 58% by FY2028, reflecting a robust recovery in capital efficiency.

The company's Cash ROIC of 58% represents an exceptional level of capital efficiency, even among the global peer companies that will be introduced later. However, what is more important for evaluating the company's valuation is the anticipated medium- to long-term improvement in the spread between its ROIC and WACC. At CGS, we estimate the company's buy-side WACC to be approximately 12–14%, based on the current global interest rate environment. This differs from the theoretical WACC values calculated using Japan's domestic interest rate levels, as it reflects the WACC that global investors require for Japanese companies based on global interest rate benchmarks. For SHIFT, the ROIC-WACC spread, a key indicator of economic value added as a listed company, is expected to continue expanding positively while achieving high profit growth. This dynamic will contribute to the expansion of the company's valuation per 1% profit growth.

On the other hand, the main risks to the company's capital efficiency include the execution of large and overvalued M&A deals, as well as a decline in operating profit margins caused by a deterioration in utilization rates. Regarding M&A, as noted in the previous section, the company has demonstrated a willingness to consider higher-valued deals within its acquisition valuation discipline (EV/EBITDA 5–10x), provided that expected synergies justify the investment. This shift reflects confidence in the consistent realization of synergies from past acquisitions, making the management's execution of future deals a key area to watch. If these risks materialize and the company's ROIC-WACC spread narrows, as it did in FY2024, the connection between profit growth and market capitalization expansion could weaken. At CGS, we anticipate that disciplined execution focused on profitability will allow the company to expand its ROIC-WACC spread and achieve sustained cash flow growth over the medium to long term. We look forward to the company's management steering the business to balance these priorities effectively.

Ex. 28: CGS forecast on SHIFT's cash ROIC



Source: CGS

② Cash Flow (CF) Conversion

The profit reported on the income statement includes numerous non-cash items, such as depreciation and amortization of goodwill, and thus does not equate to cash flow (CF). We believe the CF conversion rate as a key metric for evaluating how effectively accounting profits can be converted into cash flow. This metric is particularly emphasized by long-term global investors when assessing the FCF generation capability relative to profit growth. Specifically, two key measures are often analyzed:

- **OCF/EBITDA conversion:** the conversion rate from EBITDA to operating CF, and
- **FCF conversion:** The conversion rate from net income to FCF.

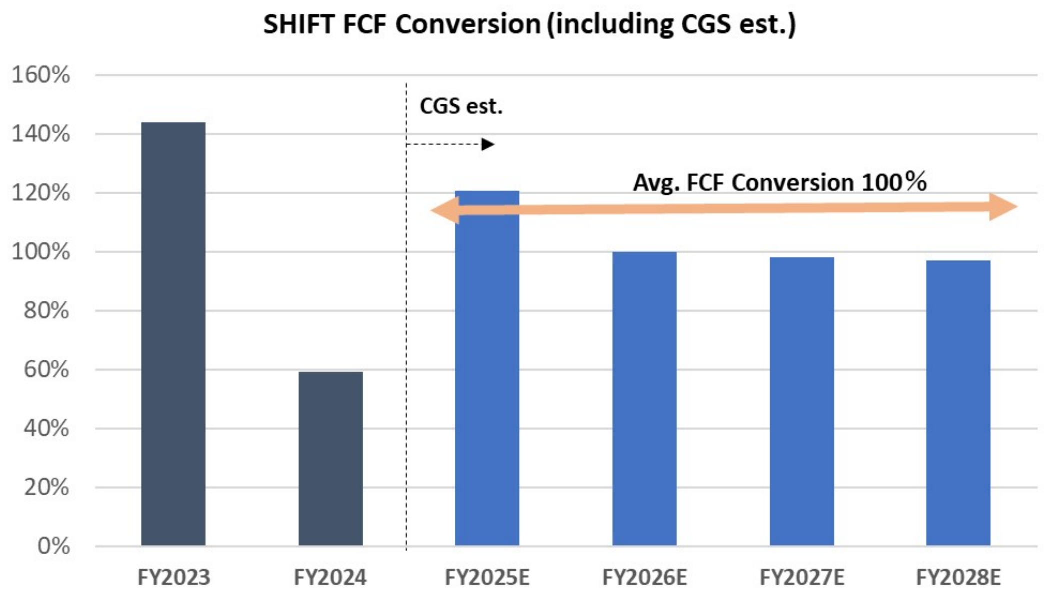
The primary driver of these conversion rates is the cash conversion cycle (CCC). For analytical purposes, FCF is defined as operating CF minus capital expenditures. In the case of SHIFT, its business model typically does not require substantial capital investments, making it feasible to evaluate the company based purely on its FCF conversion rate.

SHIFT's FCF conversion rate has remained consistently high, averaging 117% over the past five years and 118% over the past ten years, maintaining levels above 100%. This stability is attributed to the company's business model, which requires minimal capital expenditures, and the Cash Conversion Cycle (CCC), which has remained steady at 35 to 40 days. Only in the previous fiscal year did the FCF conversion rate drop to 60%, due to an increase in capital expenditures related to the construction of the headquarters and the Shinjuku office. However, CGS considers this decline temporary and expects the FCF conversion rate to return to high levels starting this fiscal year.

As long as the company maintains its exceptionally high FCF conversion rate above 100%, as projected by CGS, it is unlikely that this metric will negatively impact the valuation assigned per 1% of profit growth from the perspective of CF conversion. Furthermore, barring significant changes to its business model, the nature of its asset-light model, which does not involve inventory, makes organic deterioration in the Cash Conversion Cycle (CCC) unlikely.

However, one key risk for investors to monitor when assessing SHIFT's CF conversion rate is the possibility that future M&A activity could fundamentally alter its capital expenditure (including system investments) requirements or significantly impact its CCC model. Based on our discussions with the company's management, the current M&A targets are assets within the IT industry that contribute to the group's business, technology development, and marketing. Therefore, at present, we think acquisitions that would significantly worsen capital expenditures or the CCC cycle appear unlikely. As such, CGS's forecast model assumes that the impact of M&A on capital expenditures and CCC will remain neutral relative to the company's existing business. CGS anticipates that SHIFT's high CF conversion rate will be sustainable over the medium to long term, provided these risks do not materialize.

Ex.29: CGS forecast on SHIFT's FCF conversion



Source: CGS

③ Profit Growth Volatility

The next factor is earnings growth volatility. Even if a company doubles its operating profit over five years, the aggregate FCF in the same period varies significantly depending on whether the growth is achieved linearly or through volatility. This volatility in earnings growth directly affects capital costs due to less consistent CF generation per 1% of expected growth. Consequently, industries with cyclical earnings are generally valued at a discount compared to non-cyclical industries even on a similar expected long-term growth rate. Thus, for valuation, earnings growth volatility is one of the critical elements in analyzing FCF generation and assessing the sustainable equity multiple that investors are willing to pay per 1% growth. In this regard, CGS evaluates volatility based on revenue and marginal profit fluctuations.

In the case of SHIFT, as illustrated in Ex. 13 and 14 from the previous section, traditional volatility analysis methods for organically growing companies are not entirely applicable due to the significant contribution of M&A. However, while SHIFT has accelerated its M&A activity and achieved a high operating profit CAGR of 57% over the five years up to FY2023, its first profit decline in seven years during the last fiscal year brought a new level of profit volatility risk to the attention of the stock market. The causes of profit volatility also differ depending on the context. In FY2017, the profit decline despite revenue growth was primarily due to aggressive investments in hiring and sales activities to accelerate revenue growth. In contrast, the recent fiscal year's decline was driven by slowing revenue growth rates and deterioration in utilization rates.

On the other hand, the issue of declining utilization rates has already shown signs of resolution, as confirmed in the latest Q1 financial results. Regarding revenue growth rates, as outlined in Equity Story ①, CGS believes that a 20% CAGR in revenue, including contributions from M&A, is achievable. This is supported by factors such as the transition to a divisional organizational structure, which reduces the adverse effects of scale, expansion of professional talent, and the growth of new businesses, including BPO services. As a result, CGS anticipates that the profit volatility risk recognized in the previous fiscal year will gradually improve as SHIFT reenters a revenue and profit growth cycle starting this fiscal year.

④ Changes in Cash Usage & Change in Incremental ROI

Finally, we will examine the quality of capital allocation. Here CGS focuses on how cash utilization evolves and how efficiently the CF could increase relative to the incremental invested capital (i.e. incremental ROI).

Let's begin by examining the changes in the use of cash. For a business model like SHIFT's, which does not require significant capital expenditures, the primary uses of cash flow are focused on four areas: M&A, share buybacks, dividends, and the repayment of interest-bearing debt. In SHIFT's case, the balance sheet remains in a robust net cash position, meaning that the company's practical options for cash allocation are primarily focused on M&A, share buybacks, and dividends. Over the past five years, the company has allocated approximately 47% of its operating cash flow to M&A. Share buybacks have been conducted since the introduction of the Restricted Stock Unit (RSU) system in November 2021, primarily to offset the dilution caused by this system. However, the company has not paid dividends since its listing.

Looking ahead, CGS anticipates that SHIFT will continue prioritizing M&A as the primary allocation of its operating cash flow. The company's M&A team, comprised of around 10 experienced professionals, adheres to strict financial discipline, focusing on EV/EBITDA multiples and emphasizing IRR in its acquisition decisions. As SHIFT's scale continues to grow, there is the potential for larger acquisitions compared to previous transactions. Within the CGS forecast, annual M&A activity is expected to range between ¥5 billion and ¥8 billion. CGS expects SHIFT to execute high-quality M&A deals while maintaining or enhancing its ROIC-WACC spread, strong CF conversion rate, and overall FCF generation capacity. It is worth noting that CGS does not anticipate share buybacks beyond those required to offset dilution from the RSU system as part of its base case. Similarly, while the possibility of an inaugural dividend cannot be ruled out, it has not been factored into current projections.

Now that we have an understanding of the changes in SHIFT's capital allocation, the key focus for investors should be on the additional returns generated by these investments. To evaluate this, it is essential to analyze how the Incremental ROI on a cash flow basis, defined as the CF return on the increase in invested capital, has changed historically and is likely to evolve in the future.

Let us first examine the historical trends of Incremental ROI. Over the past five years, SHIFT's invested capital has increased by approximately ¥22.5 billion, while operating cash flow (CF) has grown by about ¥8 billion during the same period. This results in an average Incremental ROI on a cash flow basis of 35% for this timeframe. While operating CF declined in the previous fiscal year, the Incremental ROI for the prior four years (excluding the last fiscal year) reached an impressive 65%, highlighting SHIFT's strong cash flow generation capabilities from its M&A-focused capital allocation strategy.

Looking ahead, CGS forecasts that SHIFT's invested capital will increase by approximately ¥23 billion through FY2028 as M&A activity accelerates. At the same time, as outlined in the previous section, operating CF is expected to grow by around ¥15.5 billion, driven by a recovery in revenue growth rates and improvements in profitability, including contributions from M&A. This translates to an average Incremental ROI of 67% for the forecasted period, indicating a return to the company's underlying Incremental ROI levels observed previously.

The primary risk factor that could prevent SHIFT's Incremental ROI from reaching CGS's forecasted figures is M&A activity. Given that SHIFT focuses heavily on M&A within the IT industry—a sector characterized by high growth—large-scale acquisitions with high valuations pose the greatest potential risk to the company's Incremental ROI. For medium- to long-term investors, it is crucial to closely monitor the execution of SHIFT's capital allocation strategy, particularly with respect to its M&A decisions, to assess whether the company can continue to generate strong cash returns on its incremental investments.

○ Based on the above analysis, CGS has projected SHIFT's future FCF generation capacity per unit of profit growth (i.e., the valuation driver per 1% profit growth) as follows. While there appears to be little difference in the FCF generation capacity between the Base Case and Bull Case, the primary distinction between these scenarios lies in the growth rate of the profit and loss statement (P&L). Specifically, the forecasted cash EPS CAGR is 35% for the Base Case and 46% for the Bull Case. From the perspective of FCF generation, CGS believes that as long as SHIFT pursues an aggressive M&A strategy, it is unrealistic to expect a substantial improvement in efficiency beyond the current Bull Case. In the Bear Case, the projection incorporates potential delays in profitability and revenue growth recovery driven by the company's organic measures. Additionally, it reflects the risks of large-scale, high-valuation M&A, which could materialize, leading to deterioration in capital efficiency and the Cash Conversion Cycle (CCC).

Ex. 30: SHIFT's mid-term changes in key drivers of valuation per growth (CGS est.)

3-5 Year Forecast

	SHIFT (Current)	Base Case	Bull Case	Bear Case
Cash ROIC	FY24: 34% (FY23: 47%)	~55%	~65%	~28%
FCF Conversion	Avg. >100%	Avg. 100%	Avg. 105%	Avg. 95%
Profit Growth Volatility	Low→Mid	Mid→Low	Mid→Low	Mid→Low
Incremental ROI * (CF Base)	Avg. ~35% (Underlying Avg. 65%)	Avg. 67%	Avg. 72%	Avg. 27%

*Incremental ROI: OCF Growth / Invested Capital Growth

Improving or Strong | No Change or Neutral | Deteriorating or Weak

Source: CGS

○ Finally, we will analyze what multiple the stock market may be willing to assign to SHIFT's FCF generation capacity per unit of profit growth under the current interest rate environment. Typically, this analysis involves identifying peer companies within the same industry that share similar equity stories, particularly in terms of growth rates and FCF generation capacity per growth.

○ For SHIFT, we identified comparable companies with similar equity stories in the high-growth IT industry, where the company is expected to achieve significant growth through both M&A and organic expansion. Among the peers, the U.S.-based IT consulting giant Accenture (ACN US) is indispensable. Like SHIFT, Accenture operates a labor-intensive model that does not require significant capital investment and focuses primarily on IT consulting, combining organic growth with an active M&A strategy. Over the past five years, Accenture has allocated approximately 42% of its operating cash flow to M&A, closely resembling SHIFT's allocation of 47% during the same period.

Similarly, Capgemini (CAP FP), a leading French IT consulting firm, also shares characteristics with SHIFT. It operates in the IT industry, follows a labor-intensive model with low capital expenditure, and relies on M&A as a growth driver. Capgemini has allocated 32% of its operating cash flow to M&A over the past five years.

As another comparable peer, we picked Tata Consultancy Services (TCS IN), a major Indian IT consulting company, which operates within the same industry and shares similar business characteristics. However, Tata Consultancy emphasizes organic growth over M&A, providing an alternative perspective for comparison.

The table below summarizes the valuation driver comps including FCF generation per 1% profit growth.

Ex. 31: Comparison between SHIFT and global comparable peers

	SHIFT (Base Case)	Accenture	Capgemini	Tata Consultancy
Market Cap ($bn)	$2bn (as of Jan 2025)	$223bn	$30bn	$170bn
Growth Model	Organic + M&A	Organic + M&A	Organic + M&A	Organic
EV/EBITDA	22x (as of Jan 2025)	17x	10x	22x
EBITDA CAGR (3~5Y fwd)	~30% (CGS est.)	~10%	~7%	~10%
EV/EBITDA Multiple per 1% of EBITDA Growth	0.7x (as of Jan 2025)	1.7x	1.4x	2.2x
Cash ROIC	~55% (CGS 5Y est.)	~30%	~15%	75~80%
FCF Conversion	Avg. 100% (CGS 5Y est.)	~130%	~140%	~100%
Profit Growth Volatility	Mid→Low	Low	Low	Low
Incremental ROI (CF Base)	Avg. 67% (CGS 5Y est.)	20~25%	~20%	~130%

Note: Peer's Forecast is based on Bloomberg Consensus as of Jan 2025.

Stronger than SHIFT | Comparable with SHIFT | Weaker than SHIFT

Source: CGS

○ The three companies selected as peers for comparison with SHIFT exhibit medium- to long-term expected EBITDA growth rates of approximately 7–10% annually. However, the EV/EBITDA multiples assigned by the stock market vary significantly, ranging from 10x for Capgemini to 22x for Tata Consultancy Services (TCS). TCS, in particular, achieves highly efficient profit growth through organic growth rather than relying on M&A, which increases invested capital. As a result, TCS' cash ROIC and Incremental ROI metrics for FCF generation are exceptionally high, earning it a significantly higher multiple per 1% of expected profit growth. In contrast, SHIFT, with a medium- to long-term expected EBITDA growth rate of approximately 30% annually (as forecasted by CGS), is currently valued at an EV/EBITDA multiple of 22x.

○ We think that assuming SHIFT's FCF generation per unit of profit growth reaching the level of TCS would be unrealistic as long as the company continues to actively pursue M&A and accumulate invested capital in its current manner. However, based on CGS's forecast model, SHIFT's FCF generation per growth is projected to outperform that of Accenture and Capgemini, both of which also incorporate M&A into their growth strategies alongside organic growth.

Despite this, SHIFT's current multiple per 1% of EBITDA growth is significantly discounted compared to Accenture and Capgemini. We note that when applying a valuation multiple to SHIFT's profit growth, it is also important to consider the difference in stock liquidity between SHIFT and its global peers – i.e. a liquidity discount must be factored into SHIFT's valuation. However, even accounting for such a liquidity discount, the current EV/EBITDA multiple per 1% of growth assigned by the market to SHIFT (0.7x) appears undervalued when objectively considering the company's medium- to long-term FCF generation capacity. Given SHIFT's expected growth rate, CGS believes there is substantial upside potential in the company's current EV/EBITDA multiple.

Company Overview and Business Model

○ SHIFT is a Japanese IT services provider with a core focus on software testing services, leveraging its competitive edge in this domain. The company is the leading player in the outsourced software testing market. SHIFT was founded in 2005 by President Hiroshi Tange, who led the company into the software testing business in 2009.

President Tange has an impressive background. After completing his graduate studies, he joined INCS, a consulting firm specializing in manufacturing. During his tenure, he gained industry-wide recognition for reducing the production time of molds from two months to two days. His accomplishments earned him the distinction of being a top consultant, generating annual revenue of ¥200 million.

○ According to company materials, the domestic IT market in Japan is estimated to be worth approximately ¥16 trillion, with the software testing market accounting for ¥5.5 trillion of that total. However, the outsourcing ratio within this market remains very low, at just 1%, indicating significant growth potential. The following structural issues are driving the trend toward increased outsourcing of software testing:

1) Conducting tests in-house lacks third-party objectivity, which is critical for unbiased evaluation.
2) Having development engineers perform testing leads to higher costs, as their time and expertise are more expensive compared to specialized testers.
3) When engineers handle testing, it often results in lower motivation, as testing tasks are typically not aligned with their core skills or career aspirations.
4) Development engineers are not quality assurance specialists, meaning they may lack the expertise required to perform thorough and effective testing.

○ In this blue ocean market environment, SHIFT has emerged as an exceptional growth company, achieving rapid expansion through a variety of reforms and strategies, including: systemization, strong recruitment and talent development capabilities, expansion of business domains, strengthening sales capabilities, and M&A Activities:

Ex. 32: SHIFT's history of revenue growth with strategy

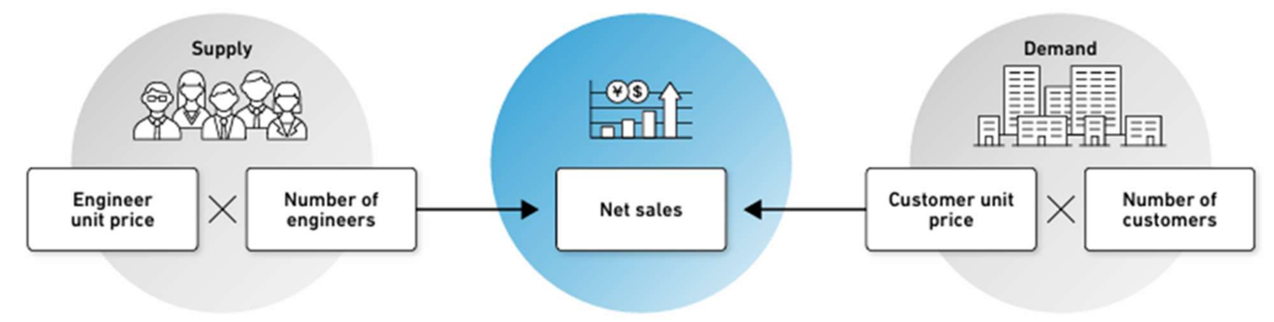
Note: FY2025 figures are the company guidance. Source: Company Material

○ SHIFT fosters a culture of breaking down concepts into simple formulas to identify growth elements and drive progress. The components of revenue are analyzed through two perspectives:

1. **Supply Side**: Engineer Unit Price × Number of Engineers
2. **Demand Side**: Customer Unit Price × Number of Customers

The company uses these factors as KPIs to manage its business operations and monitor growth. This approach of decomposition and visualization allows SHIFT to maintain a balance between supply and demand, ensuring sustained and stable growth. Additionally, the rapid increase in the number of engineers, combined with revenue expansion driven by service diversification and strengthened sales capabilities, has been a major growth driver for the company.

Ex. 33: SHIFT's KPI on business supply and demand



Source: Company Material

Ex. 34: SHIFT's long-term growth history breakdown

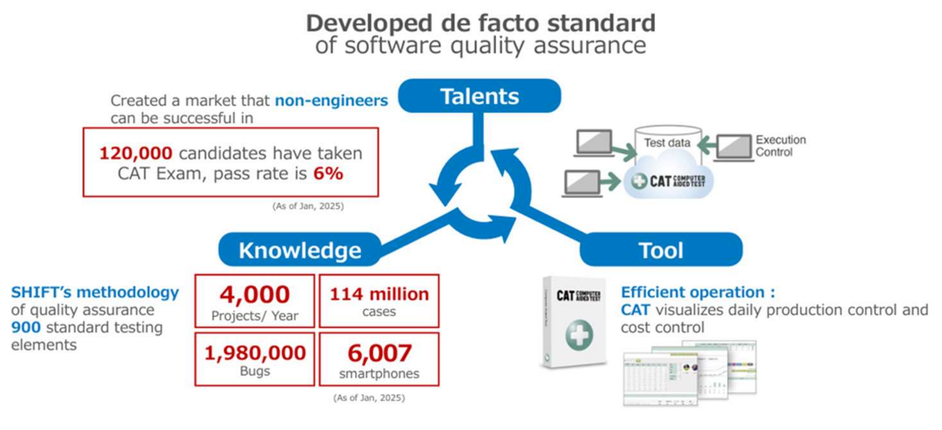
JPY mn	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Sales	3,289	5,512	8,174	12,792	19,531	28,712	46,004	64,873	88,030	110,627
Growth %	53%	68%	48%	56%	53%	47%	60%	41%	36%	26%
Operating Profit	319	518	391	1,200	1,540	2,353	3,994	6,913	11,565	10,537
Growth %	157%	62%	-25%	207%	28%	53%	70%	73%	67%	-9%
# of Engineers	708	895	1,563	2,054	3,537	4,322	6,115	8,415	10,676	11,766
Growth %	70%	26%	75%	31%	72%	22%	41%	38%	27%	10%
Avg. Engineer Unit Price (1,000yen)	526	551	583	638	659	710	738	760	818	861
Growth %	14%	5%	6%	9%	3%	8%	4%	3%	8%	5%
Monthly Avg. Customer Count	91	119	348	392	535	699	1,034	1,307	1,539	1,790
Growth %	78%	31%	192%	13%	36%	31%	48%	26%	18%	16%

Note: # of Engineers and Avg. Engineer Unit Price are based on 4Q figures. # of Engineers includes part-time wokers.

Note: Monthly Avg. Customer Count excludes small ticket customers such as used PC sales and license business.

Source: CGS – Based on Company Material

Ex. 35: SHIFT's core competencies in software quality and assurance



Source: Company Material

〇 In software quality assurance and testing, SHIFT's core competencies are grounded in three fundamental pillars: talents, tools, and knowledge.

On the talents, SHIFT conducts its proprietary CAT Certification Exam, which has an exceptionally low pass rate of just 6%. This exam assesses candidates based on their aptitude for the role, rather than their prior experience or knowledge, enabling the company to identify and recruit individuals with the potential to excel. Even those without IT experience are hired and trained to perform effectively, allowing SHIFT to rapidly expand its pool of engineers and address the chronic talent shortage in the IT industry.

Operations are managed using CAT, a proprietary software testing management tool developed by SHIFT. This tool enables real-time monitoring of testing progress and profit control, ensuring precision and efficiency in every project. Through this tool, SHIFT can maintain meticulous oversight of daily operations, streamlining processes and enhancing productivity.

In terms of knowledge, SHIFT has accumulated an extensive database of defect data from its testing processes. This data is thoroughly analyzed and converted into actionable insights, minimizing the reliance on individual judgment and eliminating the dependency of testing quality on specific personnel. Beyond the testing process, this knowledge is applied to upstream stages of software development, contributing to improved efficiency and quality across the entire lifecycle of a project.

By integrating these three elements—talents, tools, and knowledge—SHIFT has established a robust framework that ensures high-quality software testing while achieving operational efficiency and scalability. This approach not only sets the company apart but also positions it as a leader in the field of software quality assurance.

〇 SHIFT excels not only in the areas of talent recruitment and development, as well as software quality assurance and testing, but also in a wide range of other domains, including organizational management, communication, sales, and M&A. The company consistently implements systemization, with some aspects even being customized as their original tools, across these areas. CGS considers SHIFT to be one of the leading companies in Japan in terms of its ability to create and leverage systemized processes. To illustrate SHIFT's approach to systemization, we summarized examples in Ex. 36.

Ex. 36: SHIFT's systemization examples

Element of Systematization	Specific Initiatives	Examples
1. Systematization of Quality Assurance	**Visualization of quality data using CAT**: Real-time monitoring of test progress and defect occurrences to expedite problem resolution.	Preventing issues in specific environments by analyzing past defect data.
		Sharing test results via the cloud for immediate feedback implementation.
	Utilization of a knowledge base: Aggregating and reusing insights from past test projects to enhance quality.	Creating a database of industry-specific defect trends to reduce errors in new projects.
2. Efficiency in Testing Processes	**Operation of the test project support tool "CAT"**: Centralized management of test progress and quality to maximize efficiency.	Shortening test periods and achieving real-time visualization through CAT-based progress management.
		Immediate identification and resolution of bottlenecks to prevent delays.
	Segregation of development and testing: Reducing developers' workload by assigning specialized staff to handle testing tasks.	Reducing developers' workload, leading to shorter project timelines and improved product quality.
3. Automation and Standardization	**Provision of test automation solutions**: Utilizing automation tools to reduce manual tasks.	Cutting manual testing time by 50% through automation scripts.
	Implementation of standard test processes: Establishing repeatable processes to balance efficiency and quality improvement.	Standardizing all test cases to enable reuse across projects.
4. Organizational Transparency	**Real-time KPI management**: Monitoring each department's goal achievement status in real-time.	Supporting swift decision-making through internal dashboards.
	Digitized workflows: Transitioning to paperless processes to streamline information sharing.	Accelerating approval processes by digitizing application procedures.
5. Talent Development and Evaluation Systems	**Selection of personnel through the proprietary CAT certification**: Identifying individuals with an aptitude for software testing.	Selecting talented individuals, regardless of IT experience, through CAT certification.
	Standardization of evaluation metrics and provision of training: Implementing continuous education programs to support individual growth.	Offering training and certification exams aligned with skill levels to enhance employee capabilities.
6. Communication	**Introduction of chat tools**: Streamlining communication on a project basis.	Strengthening inter-departmental collaboration by sharing project progress via chat tools.
	Operation of a knowledge-sharing platform: Centrally managing in-house expertise for company-wide utilization.	Promoting application in other departments by sharing success stories and project outcomes on the internal portal.
7. Standardization of Business Processes	**Unification of task management tools**: Using common management tools across all projects for centralization.	Efficiently managing multiple projects' progress through unified tools.
	Development of guidelines: Creating clear procedures for each business process to enhance efficiency.	Supporting rapid onboarding of new employees through structured programs.
8. Systematization of Sales	**Data-driven and visualized sales activities**: Managing sales activities with KPIs to monitor progress and identify challenges.	Real-time tracking of individual sales representatives' deal statuses to allocate resources appropriately.
	Development and specialization of sales personnel: Training staff to propose solutions tailored to customer needs.	Forming specialized teams by industry to enhance proposal capabilities based on deep sector knowledge.
	Utilization of customer management systems: Employing CRM tools to centralize customer interactions and optimize pipelines.	Streamlining processes from lead generation to contract through centralized CRM management.
9. Systematization of M&A	**Clarification of target company selection criteria**: Choosing companies with strategically necessary technologies or markets based on data.	Prioritizing companies with software testing technologies to maximize business synergy.
	Standardization of M&A processes: Streamlining operations by standardizing procedures from acquisition to integration.	Creating integration plans based on past acquisitions to facilitate efficient business consolidation.
	Establishment of PMI (Post-Merger Integration) systems: Implementing mechanisms to enhance management efficiency as a group company.	Promoting group-wide efficiency by sharing internal tools and processes post-integration.

Source: CGS

Risk Factors

○ The advancement of AI technology poses the risk of increased software testing automation, potentially leading to stagnation in the testing market. SHIFT appears to address this challenge by dividing software testing tasks into 80% operational work and 20% decision-making. For the operational portion, where profitability aligns, the company employs AI and automation tools.

As mentioned earlier, SHIFT is also planning to enhance productivity in the test design phase by expanding the use of AI. While traditional assumptions held that there were limits to automation in testing processes, partly due to user concerns, the future remains uncertain.

However, if SHIFT continues to evolve faster than the broader IT industry's adoption of automation in testing, the impact is likely to be limited. This could involve not only leveraging AI for internal purposes but also strengthening upstream areas such as requirements definition and consulting capabilities, as well as integrated project handling to secure its position in the testing field. These proactive strategies aim to mitigate potential risks and maintain SHIFT's competitive edge in the face of market uncertainties.

○ The risk of intensified price competition in the software testing market due to outsourcing to countries with lower labor costs remains a concern. For instance, there have been past attempts, such as Nomura Research Institute (4307 JP)'s acquisition of Planit, an Australian testing specialist, in 2021, along with intentions to introduce automation tools into the Japanese market. However, no company has yet achieved significant success in this area.

Several factors appear to act as barriers to such efforts. These include the unique characteristics of industries and individual companies, as well as the highly customized nature of IT systems in Japan, which makes it challenging to apply standardized testing solutions developed overseas. These barriers have so far limited the effectiveness of outsourcing and the resulting price competition in Japan's software testing market.

○ There is also a risk that a slower-than-expected penetration to upstream services could result in stagnating revenue growth, leading to diminished expectations from the stock market.

○ Another key risk is that an increase in large-scale and overvalued M&A deals or acquisitions with limited potential for synergies could dilute the effectiveness of SHIFT's M&A strategy.

○ Finally, a risk of loss-making projects arising would be worth noting. However, SHIFT has implemented strict profitability management practices following the occurrence of a loss-making project within a group company three years ago. Moreover, SHIFT primarily focuses on quality assurance and testing-related consulting and PMO services and does not engage in standalone system development as part of its core operations (although system development is conducted within group companies). As a result, the risk of taking on large-scale loss-making projects, similar to those occasionally seen with consultants or major system integrators, is relatively low.

CGS Financial Forecast Model

JPY mn	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY29E Base Case	FY29E Bull Case	FY29E Bear Case
Income Statement											
Sales	64,873	88,030	110,627	134,334	163,678	200,025	237,658	280,291	280,291	338,111	206,535
COGS	43,773	58,086	75,267	88,405	107,139	130,026	153,652	180,507	180,507	213,010	138,379
Gross Profit	21,100	29,944	35,360	45,930	56,539	69,999	84,007	99,783	99,783	125,101	68,157
SG&A	14,187	18,379	24,823	30,536	35,458	40,667	46,875	54,019	54,019	59,439	46,341
Operating Profit	6,913	11,565	10,537	15,394	21,082	29,333	37,132	45,765	45,765	65,662	21,816
Pretax Profit	7,461	10,153	9,619	15,384	21,078	29,329	37,128	45,761	45,761	65,658	21,812
Income Tax	2,355	3,669	3,786	5,712	7,638	10,397	13,062	15,960	15,960	22,941	8,265
Minority Interest	131	239	118	0	0	0	0	0	0	0	0
Net Income	4,974	6,245	5,715	9,673	13,440	18,932	24,066	29,801	29,801	42,717	13,548
EBIT	6,913	11,565	10,537	15,394	21,082	29,333	37,132	45,765	45,765	65,662	21,816
D&A	1,457	1,720	2,886	3,829	4,125	4,190	4,440	4,735	4,735	6,243	5,555
EBITDA	8,371	13,285	13,423	19,223	25,207	33,523	41,572	50,500	50,500	71,904	27,371
Diluted Shares Outstanding	265	265	264.2	263.3	263.3	263.3	263.3	263.3	263.3	258.1	263.3
GAAP EPS (Diluted)	19	24	22	37	51	72	91	113	113	166	51
Cash EPS (Diluted)	22	27	27	44	59	80	101	123	123	180	64
DPS	0	0	0	0	0	0	0	0	0	33	0
Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	20%	0%
COGS/Sales	67.5%	66.0%	68.0%	65.8%	65.5%	65.0%	64.7%	64.4%	75.0%	73.0%	77.0%
Gross Margin	32.5%	34.0%	32.0%	34.2%	34.5%	35.0%	35.3%	35.6%	25.0%	27.0%	23.0%
Other SG&A/Sales	21.9%	20.9%	22.4%	22.7%	21.7%	20.3%	19.7%	19.3%	16.2%	13.9%	19.3%
OPM	10.7%	13.1%	9.5%	11.5%	12.9%	14.7%	15.6%	16.3%	8.8%	13.1%	3.7%
EBITDA Margin	12.9%	15.1%	12.1%	14.3%	15.4%	16.8%	17.5%	18.0%	17.9%	20.8%	14.2%
Cash Flow Statement											
Net Income	4,974	6,245	5,715	9,673	13,440	18,932	24,066	29,801	29,801	42,717	13,548
D&A	1,457	1,720	2,886	3,829	4,125	4,190	4,440	4,735	4,735	6,243	5,555
Changes in Working Capital	125	-897	-510	-1,034	-3,128	-3,877	-4,015	-2,931	-2,931	-719	-4,251
OCF	7,392	10,248	9,088	12,468	14,438	19,245	24,492	31,606	31,606	48,240	14,851
CAPEX	-769	-1,256	-5,711	-806	-982	-1,200	-1,426	-1,682	-1,682	-1,691	-1,652
FCF	6,624	8,992	3,377	11,662	13,455	18,045	23,066	29,924	29,924	46,550	13,199
Acquisitions	-313	-3,864	-4,624	-5,000	-5,000	-5,000	-8,000	-8,000	-8,000	-12,000	-10,000
Cash Dividends Paid	0	0	0	0	0	0	0	0	0	-8,543	0
FCF III (OCF - ICF -Div)	1,787	6,446	3,766	6,662	8,455	13,045	15,066	21,924	21,924	26,006	3,199
Share Issuance (Repurchase)	-1,751	-1,998	7	-78	0	0	0	0	0	-1,729	0
Issuance (Reduction) of Debt - Net	-686	1,193	4,605	-2,906	0	0	0	0	0	0	0
Net Change in Cash	-1,248	4,652	3,292	3,677	8,455	13,045	15,066	21,924	21,924	24,277	3,199
Conversion											
OCF/EBITDA	88.3%	77.1%	67.7%	64.9%	57.3%	57.4%	58.9%	62.6%	62.6%	67.1%	54.3%
FCF/NI	133.2%	144.0%	59.1%	120.6%	100.1%	95.3%	95.8%	100.4%	100.4%	109.0%	97.4%
Balance Sheet											
Cash & Cash Equivalents, ST Inv	12,922	17,586	20,869	24,546	33,002	46,047	61,113	83,037	83,037	62,600	38,445
Accounts Receivable	7,978	11,039	13,792	15,076	18,369	22,448	26,672	30,717	30,717	32,422	25,463
Inventories	799	731	977	1,003	1,216	1,475	1,743	2,473	2,473	2,918	1,896
Total Current Assets	22,423	30,513	37,022	42,009	53,971	71,355	90,912	117,610	117,610	99,324	67,188
Net PP&E	1,195	1,961	6,818	6,218	5,643	5,330	5,569	5,918	5,918	6,915	6,575
LT Investments	7,470	3,081	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
Intangible/Goodwill	7,461	10,428	14,464	16,541	18,472	20,295	24,241	28,039	28,039	39,367	33,703
Total LT Assets	17,807	19,017	26,282	28,259	30,115	32,125	37,110	42,057	42,057	56,382	49,377
Total Assets	40,230	49,530	63,304	70,268	84,086	103,480	128,023	159,667	159,667	155,705	116,565
ST Debt & Curr. Portion LT Debt	1,253	3,552	2,906	0	0	0	0	0	0	0	0
Accounts Payable	1,555	1,530	1,509	1,785	2,163	2,625	3,102	4,945	4,945	5,836	3,791
Other Current Liabilities	8,919	13,237	15,238	15,238	15,238	15,238	15,238	15,238	15,238	15,238	15,238
Total Current Liabilities	11,727	18,319	19,653	17,023	17,401	17,863	18,340	20,183	20,183	21,074	19,029
LT Debt	2,318	1,387	6,671	6,671	6,671	6,671	6,671	6,671	6,671	6,671	6,671
Total LT Liabilities	2,496	1,633	8,542	8,542	8,542	8,542	8,542	8,542	8,542	8,542	8,542
Total Liabilities	14,223	19,952	28,195	25,565	25,943	26,405	26,882	28,725	28,725	29,616	27,571
Total Equity	26,007	29,578	35,109	44,703	58,143	77,075	101,141	130,942	130,942	126,089	88,994
Total Liabilities & Shareholder's Equity	40,230	49,530	63,304	70,268	84,086	103,480	128,023	159,667	159,667	155,705	116,565
CCC											
Days of Sales Outstanding (DSO)	39	39	41	41	41	41	41	40	40	35	45
Days of Inventory Outstanding (DIO)	6	5	4	4	4	4	4	5	5	5	5
Days of Payables Outstanding (DPO)	12	10	7	7	7	7	7	10	10	10	10
Cash Conversion Cycle (Days)	33	35	38	38	38	38	38	35	35	30	40
ROE	21%	23%	18%	25%	26%	28%	27%	26%	26%	39%	17%
ROIC	17%	23%	16%	19%	22%	25%	25%	24%	24%	36%	15%
ROIC (ex. Cash)	32%	43%	30%	36%	43%	52%	55%	57%	57%	63%	25%
Net Cash per Share	35	48	43	68	100	150	207	290	290	217	121

** All the per share items above reflect 1:15 stock split efffective on 24 January 2025.*

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