SHIFT, Inc.

Announcement on SHIFT's Prospective M&A/PMI Strategy and "SHIFT Growth Capital"

March 31, 2022

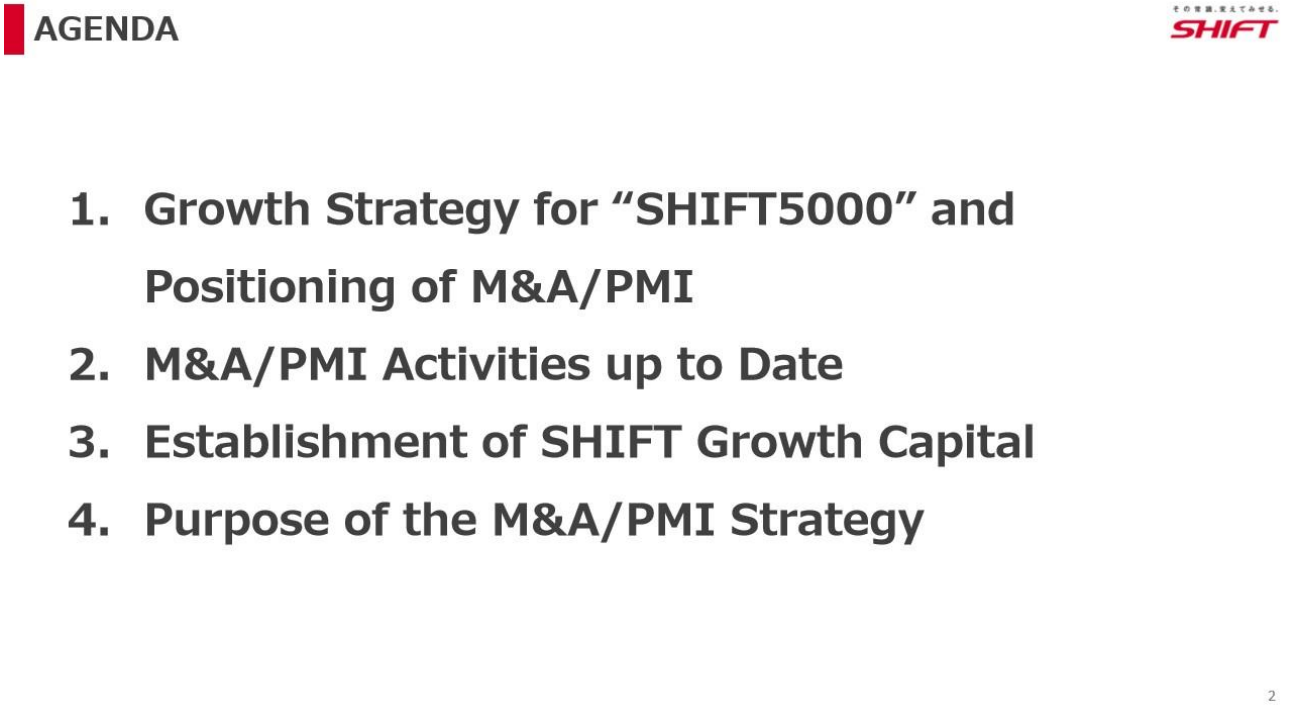
Presentation

Hattori: Hello to everyone who is watching. My name is Hattori, Director and CFO of SHIFT Inc., and Representative Director of SHIFT Growth Capital Inc.

Thank you for taking time out of your busy schedule today to join us for a live webcast of a presentation on our M&A/PMI strategy and SHIFT Growth Capital.

Today, I and Mr. Kojima, Director of SHIFT Growth Capital Inc., will present an overview, which will be followed by a Q&A session.

Let's move straight on to the explanation.



In line with today's agenda, I will begin by explaining our growth strategy for SHIFT5000 and the positioning of M&A/PMI.

Next, we will review the major results of our M&A/PMI efforts to date. After that, we will take a look back and explain the background of the establishment of SHIFT Growth Capital.

Finally, in summarizing, I will reiterate the significance of the M&A/PMI strategy.

SHIFT'S GROWTH STRATEGY

Toward ¥500bn, SHIFT Will Continuously Make Changes

		¥100bn	¥300bn	¥500bn
	Net sales	¥100bn	¥300bn	¥500bn
	Branding	No.1 in software testing	Achieve top-of-mind in "DX" and "sellable service producer"	Achieve top-of-mind in business transformation of each company
	Number of engineers	10,000	28,000	40,000
	Target year	~~FY2025~~ ➡ FY2023~24	~~FY2030~~ ➡ FY2028~30	FY2033~35
SHIFT (consolidated)	Account/ sales	To establish thorough customer portfolio	To build relationships with customers to provoke business transformation	Growth rate acceleratingly increase, with accumulating DBs of accounts, projects, HR, technologies, M&A
	KPI	No. of customers: 3,000 (active: 1,300) Big customer: ¥5bn/ year ¥/ sales person: 0.7bn Building relationships with 100 CIOs	No. of customers: 4,000 (active: 2,000) Big customer: ¥10bn/ year ¥/ sales person: 0.8bn Building relationships with 100 CIOs	
	HR/ recruiting	To be the top in recruiting ability in IT industry	To be the top-of-mind of "DX HR dep. In Japan"	
	KPI	No. of the recruited: 2,500 No. of HR personnel: 200 No. of engineers registered in SHIFT's DB: 300K	No. of the recruited: 4,000 No. of engineers registered in SHIFT's DB: 800K New evaluation criteria besides "motivation" and "compensation"	
	Service/ technology	To organize service infrastructure that brings all technologies together	To provide service planning ability that considers sales expansion of customers	
	KPI	Unit price for engineer: ¥900K No. of services: 300 DAAE sales: ¥10bn	Unit price for engineer: ¥1.2mn DAAE sales: ¥50bn Expanding revenue sharing	
	M&A／PMI	To promote PMI thoroughly	The complete group management Pursuing the value of joining SHIFT Group	
	KPI	Group company sales: ¥50bn Group company growth rate: 30%	Size of M&A: ¥10bn Group company growth rate: 30%	

Acceleration with SGC*

*SHIFT Growth Capital

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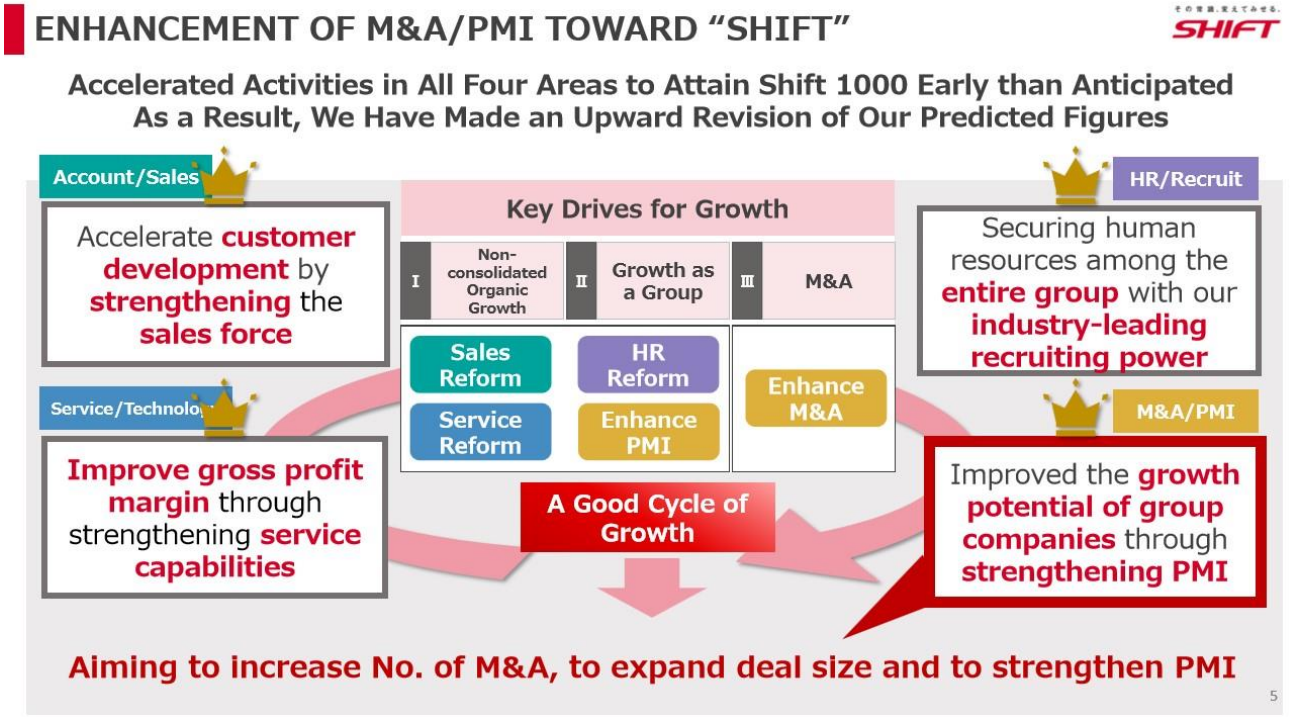
First of all, I would like to report on our growth strategy for achieving SHIFT5000 and the positioning of M&A/PMI.

As we explained in our financial results presentation materials, the SHIFT growth strategy is to grow from SHIFT1000 to 3000, and beyond that to 5000. In our efforts to date, in the four major strategic pillars of accounts/sales, HR/hiring, services/technology, and M&A/PMI, we have been able to greatly tighten our focus in working on 1000 and 3000.

As a result, as I have explained in past presentations, we were able to achieve the 100 billion and 300 billion target years ahead of schedule, which I believe is a very significant achievement.

Today, I would like to report on the M&A/PMI section, which is shown in yellow at the bottom of the page as SGC, which is the abbreviation of SHIFT Growth Capital. We hope to further accelerate our yellow strategy by establishing this section.



As for strengthening M&A/PMI strategies for SHIFT5000, the basic premise is that these four pillars are not independent of each other but are designed in a relationship where they enhance each other.

We have created an industry-leading recruiting capability by accelerating customer acquisition through the strengthening of account/sales and sales capabilities, and through HR/hiring, by recruiting a large number of people. In addition, by taking steps on the human resources side, we have been able to not only recruit people, but also to reduce the resignation rate by making the people who work with us more active and vibrant.

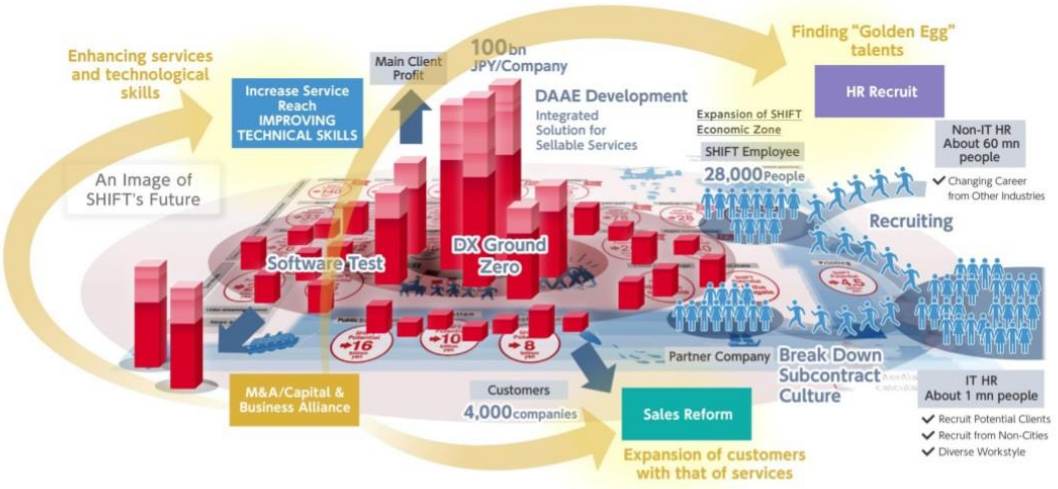
Naturally, regarding services/technology, we have also thoroughly strengthened our services capabilities by firmly investing in these areas. We have been striving to improve the gross profit margin.

I have explained that the growth potential of our group companies has been greatly enhanced by firmly reflecting the improvement of these pillars in M&A and by thoroughly conducting PMI (post-merger integration) after the purchase.

Based on these results, I would like to explain our overall M&A strategy, which aims to increase the number of M&A transactions, expand deal size, and strengthen PMI.

POSITIONING OF M&A UP TO NOW

In Addition to the Organic Growth of SHIFT (parent), M&A Will Enhance Each Item of 4-corner Strategy



Let me begin by reviewing our M&A/PMI efforts to date.

Let me reiterate the position of M&A within SHIFT. I mentioned earlier that sales, human resources, and services have contributed greatly to M&A, but the reverse is also true. Through M&A, we have greatly strengthened these three pillars, which we consider a major achievement.

Specifically, we have acquired new services and technologies in adjacent areas through mergers and acquisitions. As a result, they have made a significant contribution to expanding our service capabilities, which is one of our pillars, and to improving our technical capabilities.

Furthermore, as you can see in the upper right-hand corner, personnel recruitment. The majority of the companies we have acquired have a large number of engineers, and while, of course, the total number of people increases, another very important factor is that there are often very talented engineers within the Company, who are described here as "Golden Eggs." Providing a field in which these people can play an active role is making a significant contribution to SHIFT's overall human resources strategy.

Furthermore, through mergers and acquisitions, our services have expanded. As a result, SOM, which is part of the so-called TAM, SAM, SOM structure has expanded greatly. From a sales perspective, the introduction of new products has made a significant contribution to our sales strategy by allowing us to reach new customers.

M&A STRATEGY MAP

Choosing M&A Target Area/Companies along the Strategy Map.
Aiming to Provide All Types of Services from Resources, Elemental Technologies to Software Services

Areas					
IT Governance	IT Governance (Budget Management, etc.)	SHIFT	SHIFT ASIA	✶A-STAR	
	Development/ Training and Quality Management	SHIFT	SHIFT ASIA	✶A-STAR	
Applications	UI/UX・UAT Marketing	saunashi	nadia		
	Planning and Requirements Definition	Methodo LOGIC	Post-Release Support	SHIFT PLUS	
	Testing	SHIFT	SHIFT ASIA	✶A-STAR	
	Design/ Development	SI SYSTEM	ALH	VISH Inc.	
Infrastructure	Infrastructure Grand Design	SHIFT	SHIFT ASIA	✶A-STAR	
	Database/ Middleware	Airitech	Server	RGA	
	OS	Airitech	Devices	SNC	
Network	Network		Security	SHIFT SECURITY	
Data Center	Data Center /Cloud				
Software Service	Business Systems				

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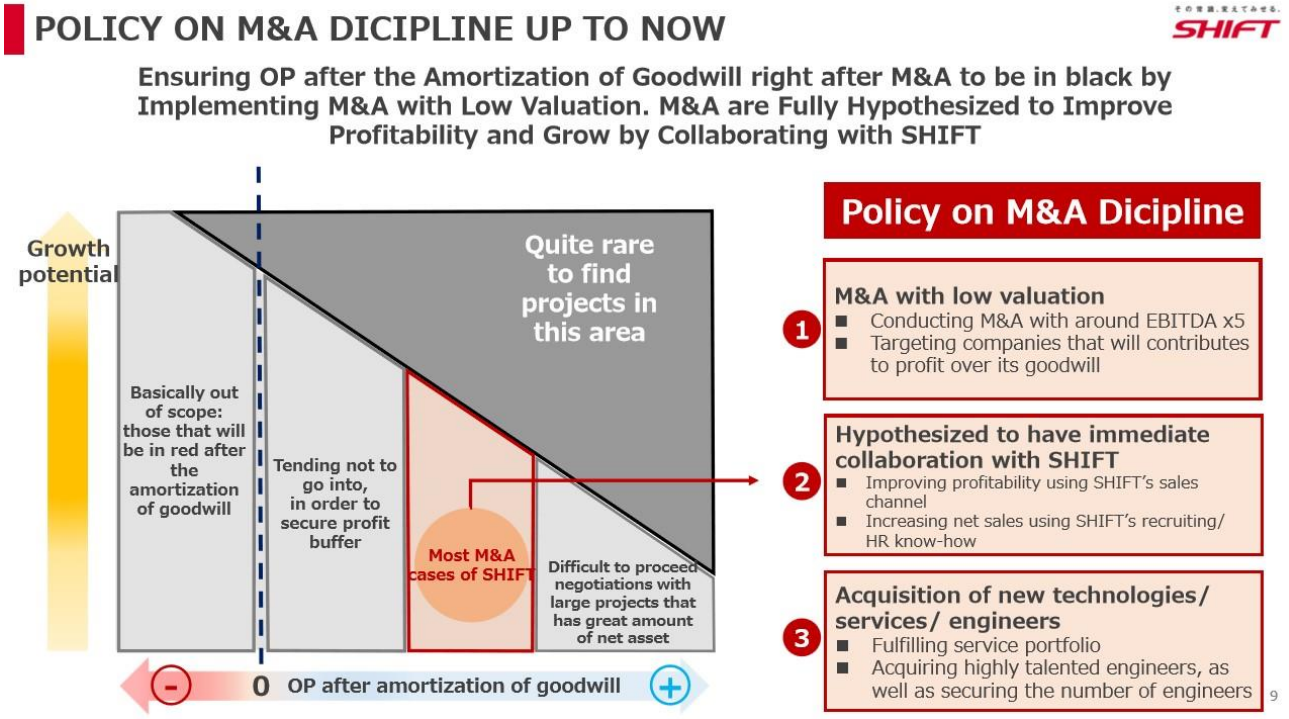
In terms of the specific M&A process, we have basically been acquiring what we have targeted in a targeted manner.

In the past, we have described SHIFT's larger goal as being a general trading company in the IT industry or being like Foxconn. But we have been working to become a one-stop provider of all services, from resources and elemental technologies to software and services.

We have clearly defined the situation on the strategic map shown here and have selected areas, services, and companies to fill in the gaps, one by one.



I would like to explain the thinking behind a major rule in the actual implementation of this.

To put it simply, one of SHIFT's main types of M&A is M&A at low valuations. As you can see in the figure on the lower left, the vertical axis represents growth potential, and the horizontal axis represents the ability to generate operating income. If we go to the right side of the line, starting at zero, we see that after amortization of goodwill, in other words, the goodwill generated at the time of acquisition, operating income can still be generated after amortization of this goodwill, and therefore can contribute to profit from day one.

So, first of all, we basically do not do projects that result in a loss after amortization of goodwill, which is the leftmost section on the chart. In addition, from the viewpoint of ensuring a solid profit buffer after the acquisition, the profit buffer has been set at a fairly wide range.

As you can see in the upper right-hand corner, the specific guideline is a so-called EBITDA multiple of about five, which I think is a very inexpensive valuation. In this way, we have targeted companies that do not lose goodwill.

On the other hand, what we essentially want to do is to have high growth potential and solid operating profit after amortization of goodwill. Solid operating income means that, naturally, we want to see it continually rising. This segment, in other words, has growth potential and high profit after goodwill, but there are not many companies in the world that are cheap but grow.

Therefore, we want the companies we have acquired and have joined our group to grow by using SHIFT's assets. In this regard, we have targeted companies that have a high affinity with SHIFT's existing services.

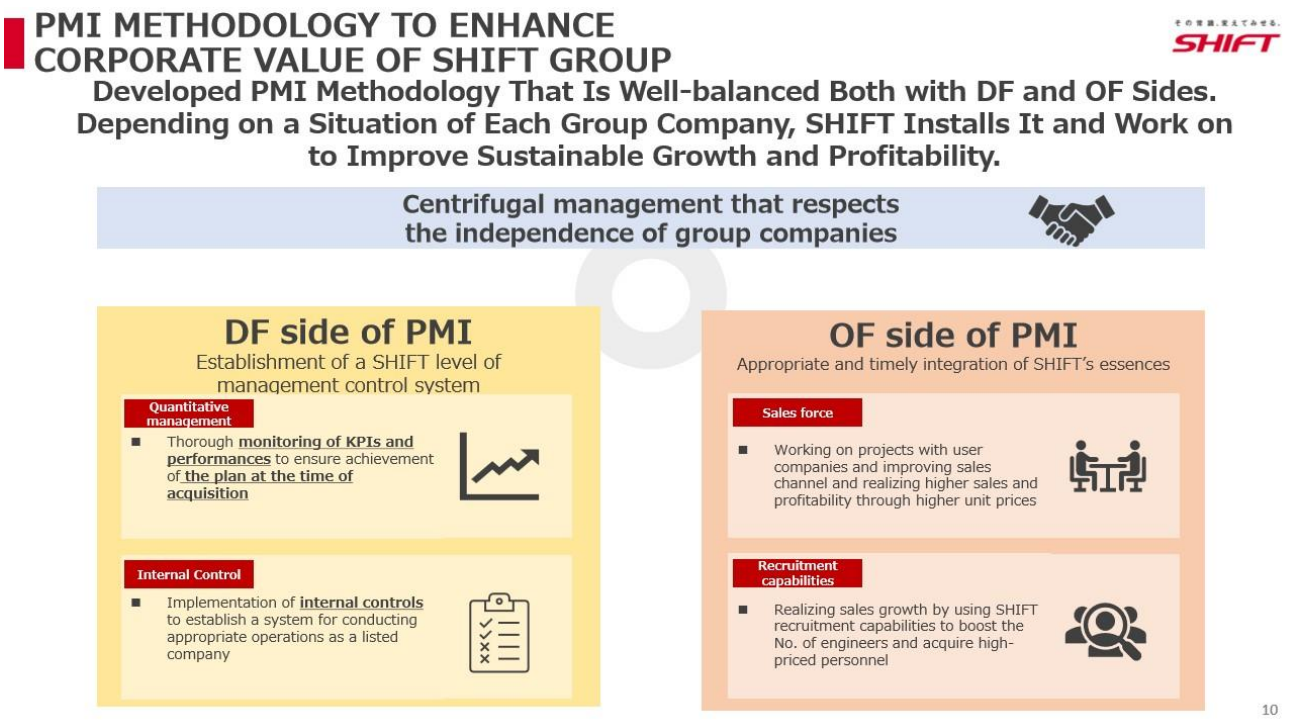
Specifically, one of SHIFT's characteristics is that the majority of our current sales are from prime projects. What we mean by “prime,” is that we deal directly with the end customer, so the unit price is very high because there is no intermediation. Higher unit prices mean higher gross margins. We have increased our earning power through these efforts.

On the other hand, SHIFT is already currently working to hire 2,000 people a year, and I truly believe that SHIFT is one of the best recruiting companies in Japan. In addition, the so-called employee retention rate, or

the annual resignation rate, is less than 10%. So, we have a structure in place to recruit a large number of employees and have them work for a long time.

Although most of the companies have not grown that much at the beginning, by utilizing these two factors, we want these companies to utilize that know-how and post profit. So, a key determining point for us is whether there is an affinity there.

As I mentioned earlier, of course our approach is not to buy sales or buy profit, but to purchase technology or services that expand our service lineup or our key resources. We have been promoting M&A based on companies being able to contribute to that, and on our prerequisite three rules.



After acquisition, as I have mentioned several times in past earnings announcements, comes the so-called PMI. We have been very thorough in developing the way we do this and have completed that development.

First of all, as a basic premise, we are conducting centrifugal management that highly respects the autonomy of our group companies. To explain what that is, the majority of the companies we acquire are not companies based on software assets or infrastructure. The majority of companies are ones where engineers work hard and by them working enjoyably, a solid unit price is achieved. In short, most of the companies are ones where people are the source of their earning power.

Therefore, I believe that if we suddenly decide to make thorough changes from the day they join us, it will destroy the organization.

The premise of our management is centrifugal management that respects the autonomy of group companies. In this context, we have been promoting PMI while maintaining a balance between, what we express this time as, defense and offense. Specifically, what is defensive PMI? To put it simply, by putting in place a SHIFT-level business management system, we will be in a position to firmly achieve the operating profit plan planned at the time of acquisition. By managing KPIs and monitoring performance figures, and incorporating them in the SHIFT Way model, we have been working on this as one of our defensive PMI measures to ensure that we do not lose out on operating income.

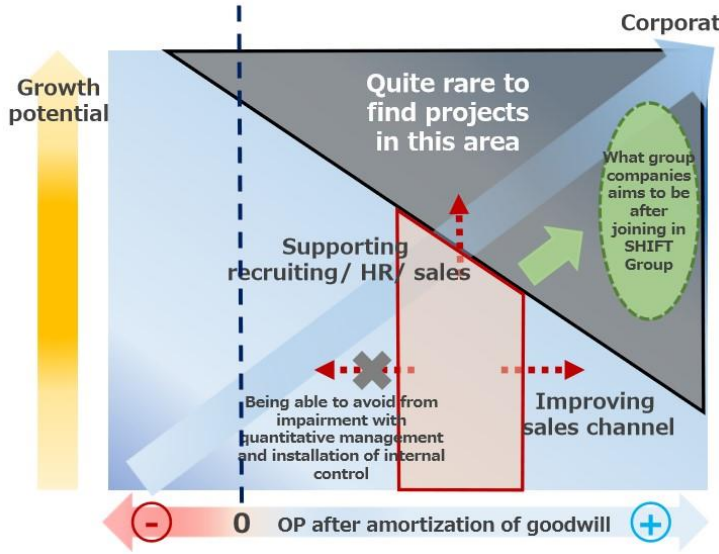
Another very important point is that since SHIFT is a publicly listed company, we have already thoroughly introduced internal controls to prevent so-called "accounting accidents" and other such occurrences. This is defensive PMI.

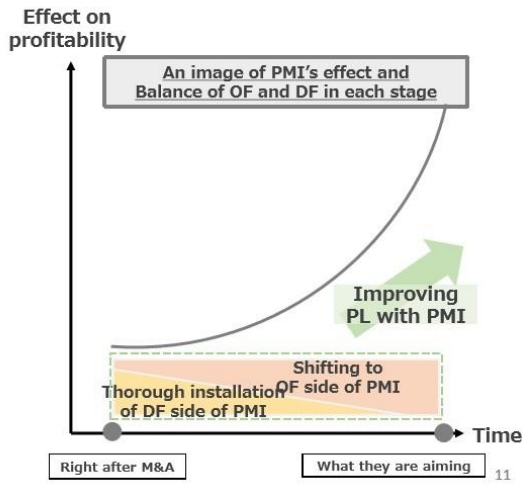
Next, on the right you will see offensive PMI. This is largely the essence of SHIFT's growth here. As I briefly mentioned earlier, I would like to see these companies grow as much as SHIFT by thoroughly utilizing this. We have conducted PMI in such a manner. Specifically, and somewhat repetitively, we have them work on SHIFT's prime projects. We boost the commercial flow. They are a prime agent, not a second- or third-tier contractor. This leads to an increase in the unit price, and as a result, the gross profit margin, or sales, itself will increase.

And recruiting power. We have them take full advantage of SHIFT's recruiting capabilities. After all, everyone is having a hard time recruiting now in a market of overwhelming excess demand. They become able to recruit in this market. These are the things they have been working on. As a result, by utilizing SHIFT's know-how to make overwhelming improvements on both the demand and supply sides and having them recreate themselves as companies with solid growth potential. We have been working on a form that produces sustainable growth and profitability.

POLICY ON PMI PROMOTION

Securing Firm Profitability with DF Side of PMI.
Having Worked on Improving Corporate Value by Gradually Introducing "OF Side of PMI" with Consideration of the Situation of Each Group Company





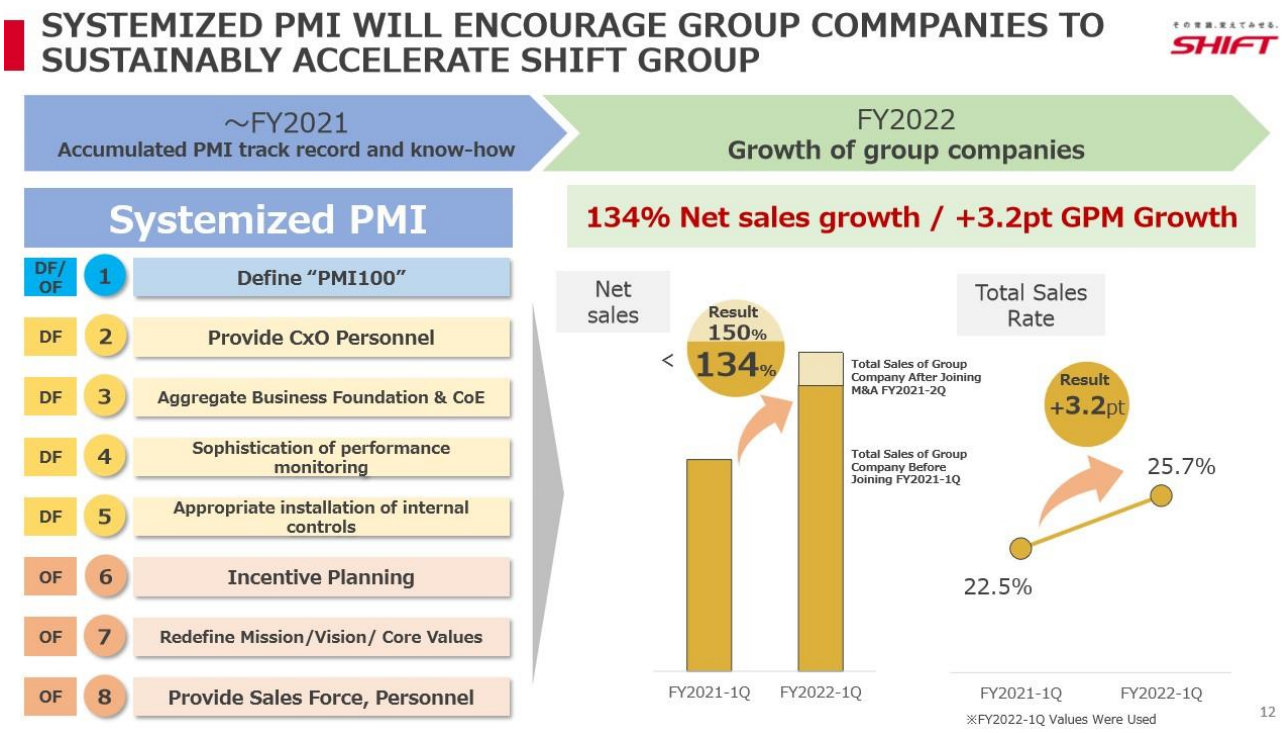
In fact, looking at how we have advanced our organization in this way, I would like to briefly explain our approach to advancement.

First of all, there is a time lag between defense and offense. As I mentioned earlier, the majority of the companies we acquire and the M&A we do, are a mass of engineers. In addition, the majority of companies are third-, fourth-, or second-tier subcontractors in a multiple subcontracting structure. I believe that if we were to tell such companies that from today they should completely change their approach and start doing things the same way SHIFT does, it would destroy their organization.

Therefore, we will first thoroughly implement defensive PMI to ensure that operating income will never fall below the level planned at the time of acquisition. Honestly, this can be done from day one.

As we do this, we gradually and incrementally share with everyone why SHIFT is growing, since we are basically a highly transparent company, and create a situation where people want to do the same. Or they need to gain a clear understanding of how to do it.

By doing this over a solid time frame, we gradually and incrementally increase the commercial flow in a way that does not destroy what we already have but builds on it. And they will be able to recruit. In this way, as shown in this picture, we have been working on not going to the left-side but heading to the upper-right.

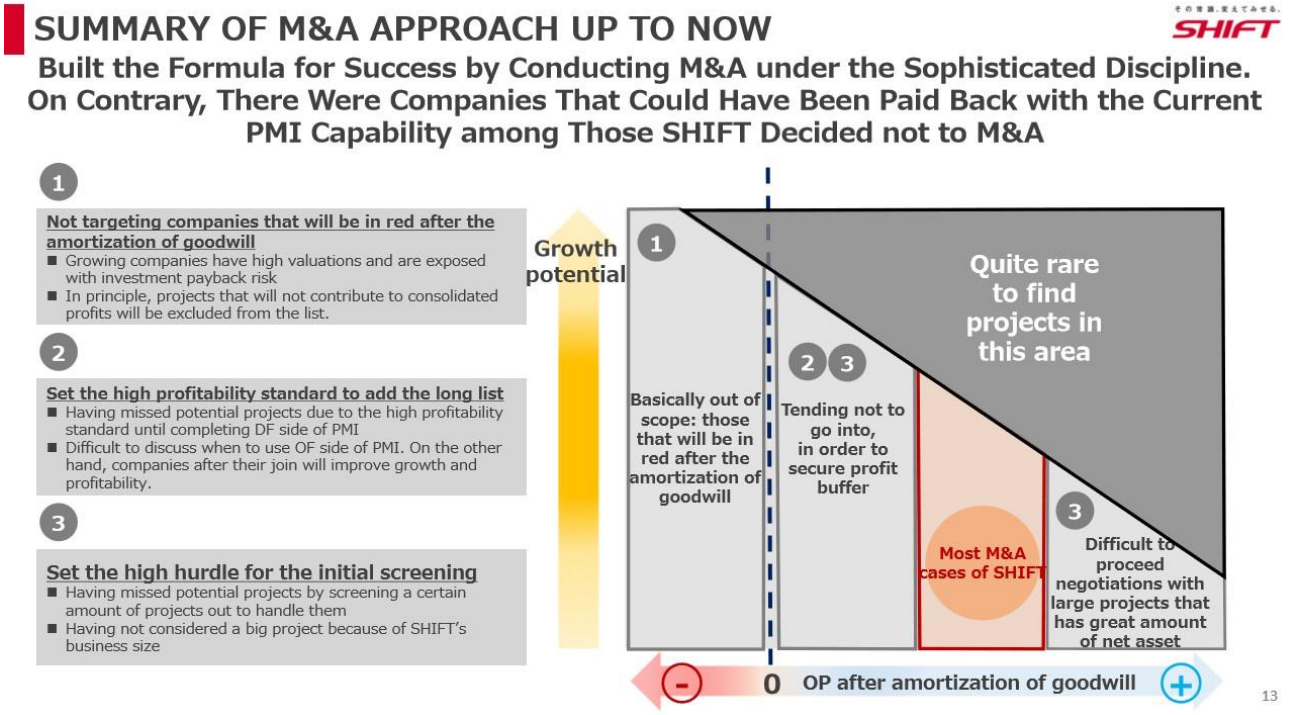


This slide shows the results of those efforts.

First of all, as I have mentioned several times in past earnings announcements, one of our major achievements was the creation of a PMI playbook. What I mean by "creating a playbook" is that the defensive and offensive actions are being faithfully reproduced, with multiple companies becoming able to do so one after another.

This has led to significant financial results, on the right-hand side of our charts. Specifically, here is a comparison of organic sales from group companies in Q1 of this fiscal year, which shows 134% sales growth. In essence, this is simple organic growth that excludes the sales contribution from M&A entry last fiscal year or up to Q1. In the current structure of Japan, 134% annual growth is no longer a problem for a growing company. This is one of our most significant achievements.

In addition, we are not simply adding to sales, but are making progress in improving the gross profit by improving commercial flow. The YoY increase was 3.2 percentage points, which means that profitability improved while sales grew, and the gross sales ratio also improved. I would like to emphasize here that the current state, due to the creation of a PMI playbook, is that the Group companies have already become the engine of sustainable growth for the entire SHIFT Group.



With this in mind, I would like to once again reflect on our approach to M&A to date.

First, as I mentioned earlier, we have been executing mergers and acquisitions under very advanced discipline. As a result, I believe that a clear formula for success has been established as various initiatives, especially in the PMI area, have been formatted.

However, when compared with this formula, even for projects that we have passed up so far, honestly we believe that in light of our current PMI capabilities there are certain areas where we can sufficiently recover our investment.

For example, the EBITDA multiple of five, which is the orange-shaded area in the middle of this diagram. I honestly believe the lines here are very narrow. If, for example, we expanded to the left slightly with a multiple of six, or seven, or eight, would there be a risk to earnings? Frankly speaking, our current defensive PMI is not so much a matter of not going to the left, as it is of eating away at the buffer to ensure that the investment is fully recoverable.

And, also, on the right-hand side. This is, basically, large projects. These are companies with relatively long histories and solid net worth. For such companies, the scale of SHIFT is now completely different from what it was three years ago. And there are a certain number of companies that were put off by the scale of the Company as it was growing.

In addition, we have been devoting a great deal of resources to PMI and formatting procedures. Among them, there are a certain number of projects that we had to forego from a resource perspective.

DIRECTIONS THAT SGC WILL WORK ON ADDITIONALLY

Promoting to Expand Target Area While Continuing to Discuss Under the Strict Discipline

1 Current policy

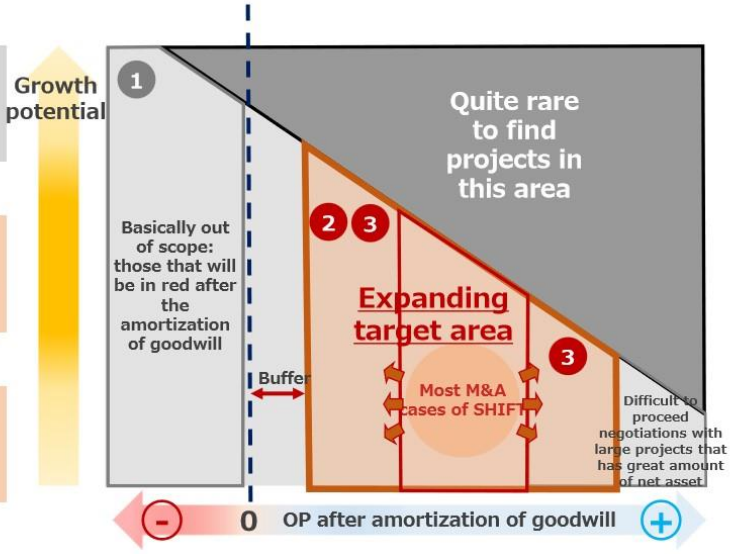
Not targeting companies that will be in red after the amortization of goodwill
- Growing companies have high valuations and are exposed with investment payback risk
- In principle, projects that will not contribute to consolidated profits will be excluded from the list.

2 New policy

Adjusting the profitability criteria to add the list
- Expanding the profitability standard to add the long list by thoroughly introducing DF side of PMI
- Yet, securing enough room in order not to be in red after the amortization of goodwill

3 New policy

Adjusting the hurdle for the first screening
- Expanding the no. of potential projects especially by the total power of DF side of PMI
- Along with the growth of SHIFT, promoting to safely proceed bigger projects.



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In this context, in terms of the direction we would like to take, we will continue to work according to strict rules.

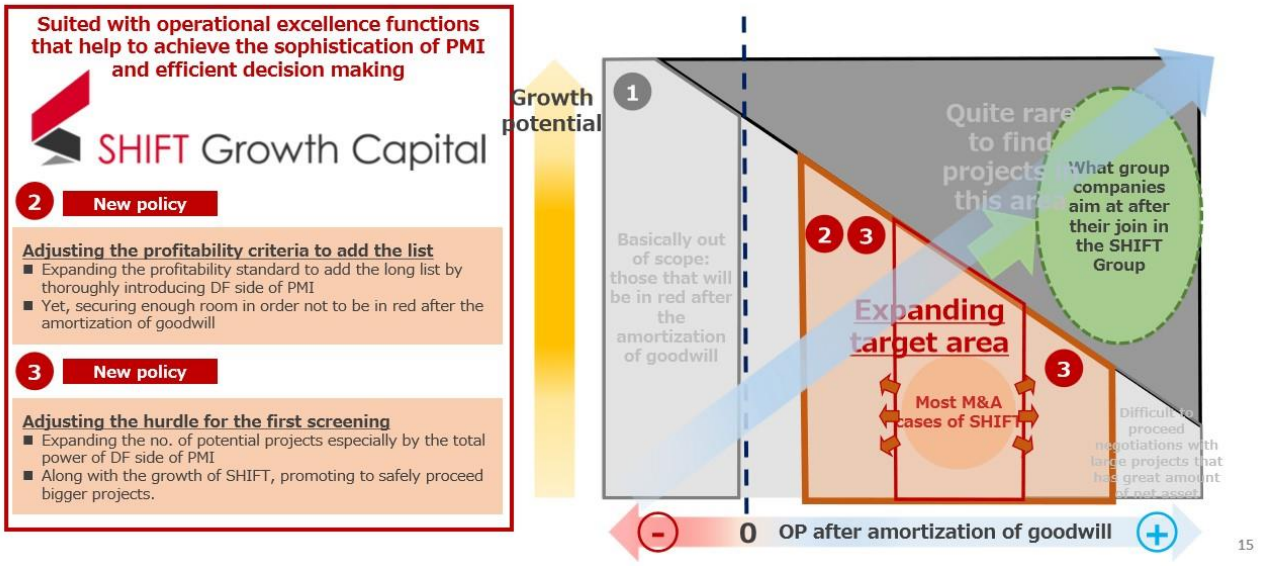
Naturally, in principle, we will not consider companies that would be in the red after amortization of goodwill. We would also like to obtain a certain degree of the profitability buffer. While at the same time, expanding it somewhat to areas where our current defensive PMI capabilities would be sufficient to handle the situation.

As SHIFT continues to grow, so do the companies on the right. And our current balance sheet and our cash flow from operations are increasing, as is our capacity to invest, based on this capital.

In this context, we would like to work on larger projects, and projects that we passed over in the past and passed over due to resource constraints.

ACCELERATING M&A WITH THE ESTABLISHMENT OF SGC

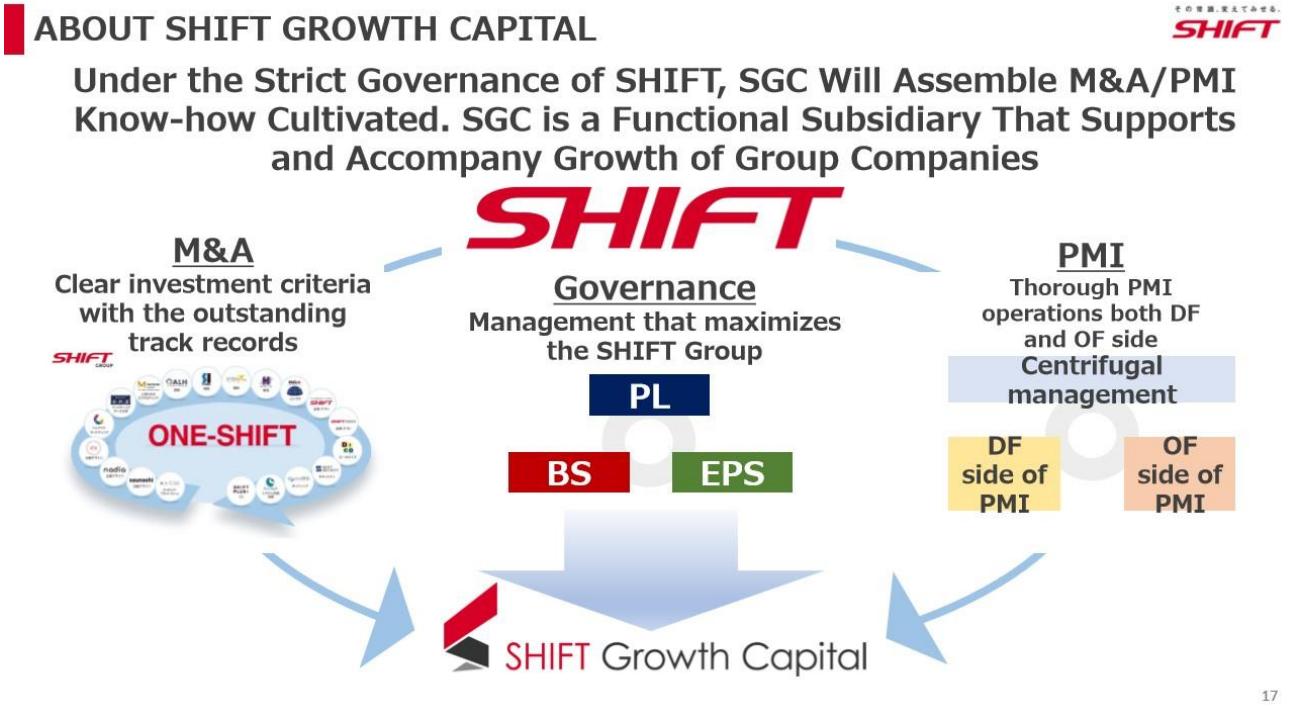
Thorough Enhancement of DF side of PMI by Assembling PMI Resources. While Trying to Expand M&A Target Area, SGC Will Aim at Improving Mid-term Corporate Value



We would like to explain the establishment of SHIFT Growth Capital as a framework for achieving that.

As a key point, we want to thoroughly concentrate the PMI resources that we have been working on in various ways, and first of all, we want to overwhelmingly strengthen defensive PMI.

In addition, while expanding the scope of M&A deals more and more, we are expanding our target zone as we aim to further increase our corporate value over the medium term. We also want to create a situation where, due to the strength of the expanded PMI, will be able to firmly improve our results.



So, having looked at the findings of our review of our efforts so far, I would like to move on to explain SHIFT Growth Capital.

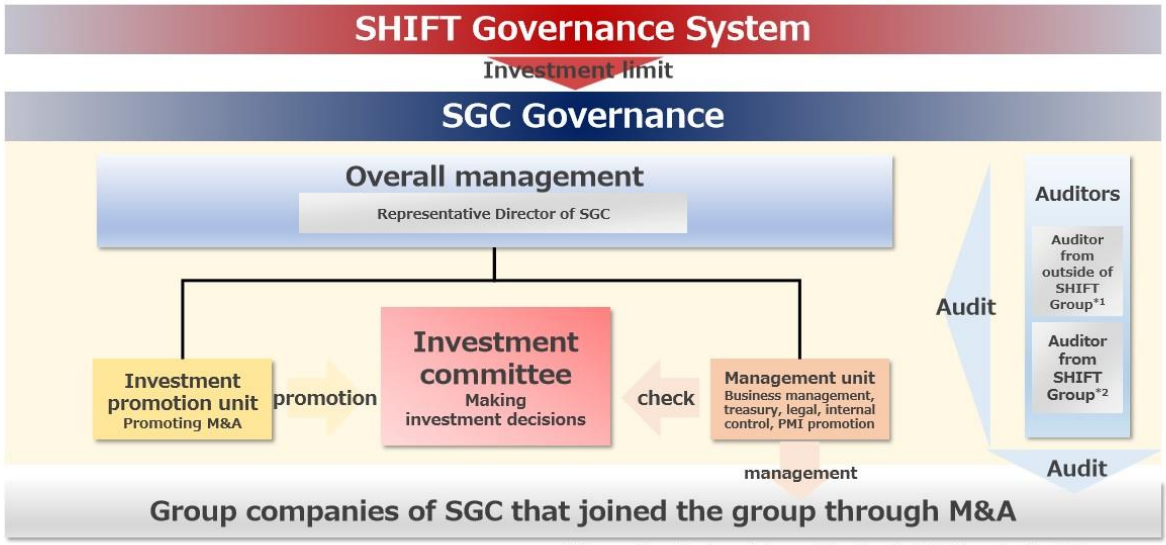
So, first of all, what is SHIFT Growth Capital? Simply put, it is a functional subsidiary of SHIFT itself.

The situation is that SHIFT's governance is very strict and thorough. And what I mean by this is, first of all, SHIFT's consolidated and optimally maximized P&L balance sheet and, of course, EPS, which is a value indicator for shareholders. We have established Growth Capital with the aim of raising this overall level.

We will continue to support the growth of each group company by applying the M&A expertise, investment criteria, and PMI capabilities that SHIFT has cultivated so far. We are founded on the concept of such a company.

GOVERNANCE SYSTEM TO PURSUE EXPANSION OF TARGETS AND ENHANCEMENT OF PMI

Installed Audit System as Effective as SHIFT to Make the Organization with Well Checked and Balanced. Controlling the Overall Risks by Letting SHIFT (parent) Decide Investment Limit



*1 is an auditor who does not have relationship with SHIFT Group besides SGC
*2 is an independent outside director who is a member of Audit & Supervisor Committee

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First of all, I would like to explain about governance.

We have explained that we will expand the number of projects or strengthen our PMI capabilities, but of course, we have designed our organization with the basic premise of a well-functioning governance system.

The first thing I would like you to notice in this picture is the investment framework. SHIFT's directors will determine maximum risk tolerance here. Within the limits decided there, the investment will be advanced within SHIFT Growth Capital.

Specifically, under the supervision of the representative director of SGC, which is me, I want to advance and manage the investment, and to have checks and balances carried out.

While the Investment Promotion department is responsible for sourcing and promoting the projects themselves, the Management department is responsible for thorough evaluation of valuations, business plans, internal control risks, and compliance, as well as business management, as is written.

The Investment Committee then makes the final decision after clearly assessing the opportunities and risks.

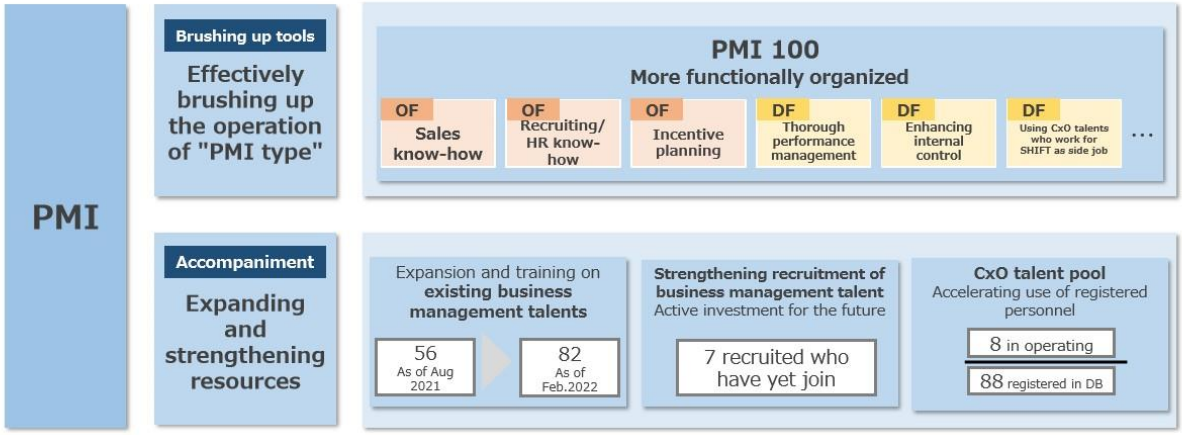
One major point here is the Management department. The chart shows the “check” function, but what is important here is that the people here who wrote the business plan take responsibility for the results even after they have joined the Company. And by carrying out checks, the M&A Promotion department will firmly promote the business plan written by these people, to create a system that increases the probability of success.

In addition, from an auditing perspective, we have prepared two positions. One is the auditor of the entire SHIFT Group. We have one seat occupied by an outside director or Audit Committee member of SHIFT, now. The second will be for an external audit or who is not currently involved with the SHIFT Group.

The concept is to introduce an auditing system of the same level as SHIFT's own by having these two individuals audit the governance of SGC as a whole, as well as the newly joined group companies.

DIRECTIONS TO ENHANCE PMI CAPABILITY

Sophisticating PMI Methodologies Thoroughly While Using Resources. Enhancing and Expanding PMI as an Organization



*OF: OF side of PMI
*DF: DF side of PMI

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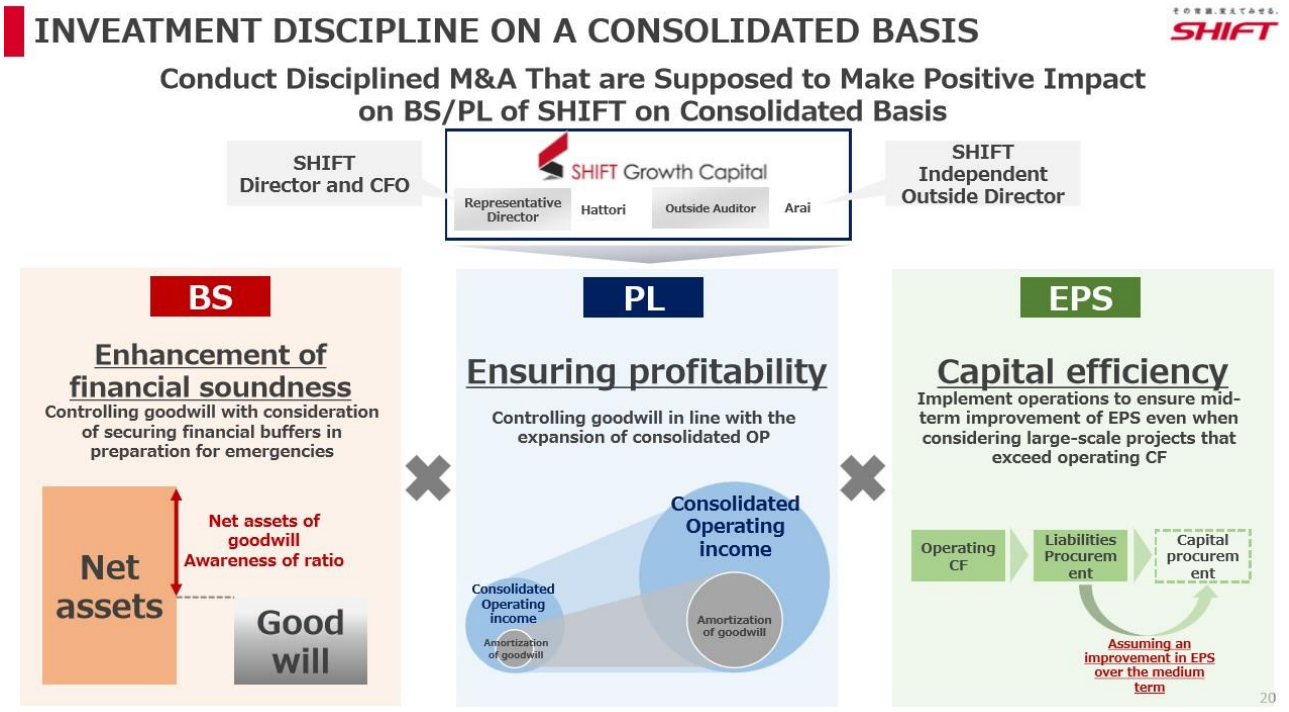
Next, we come to PMI. As I have said in the past, I believe that our PMI and formatting of procedures have advanced significantly. We want to continue to steadily refine this mold, not necessarily complete it, as we expand it further.

In addition, as more and more group companies join our group, we will need more and more resources. We have been thoroughly promoting the hiring of personnel for the so-called management side, and the M&A promotion side. And I, too, joined the Company last July.

We would like to accelerate this process and invest resources in SHIFT Growth Capital, while also strengthening our PMI capabilities as a whole.



Next, I would like to explain our approach to investment discipline on a consolidated basis.

Naturally, as we have said before, we will make sure that SHIFT governance is in effect. What is shown here is B/S and P&L on a consolidated basis. On the premise that there will be a positive impact on this, we will conduct disciplined M&A.

My name is written here, and the point of that is that by SHIFT's Director & CFO acting as Growth Capital's representative director, governance will be affected by someone who firmly embodies SHIFT's interests. In addition, by having an outside director and a member of the Audit Committee of SHIFT also involved, the two of them will be able to exercise discipline in a way that fits SHIFT's interests.

Specifically in terms of the balance sheet, we will naturally have risk assets in the form of goodwill. So, we will control the balance with net assets, not only for SHIFT Growth Capital but also for SHIFT as a whole, from the perspective of overall optimization.

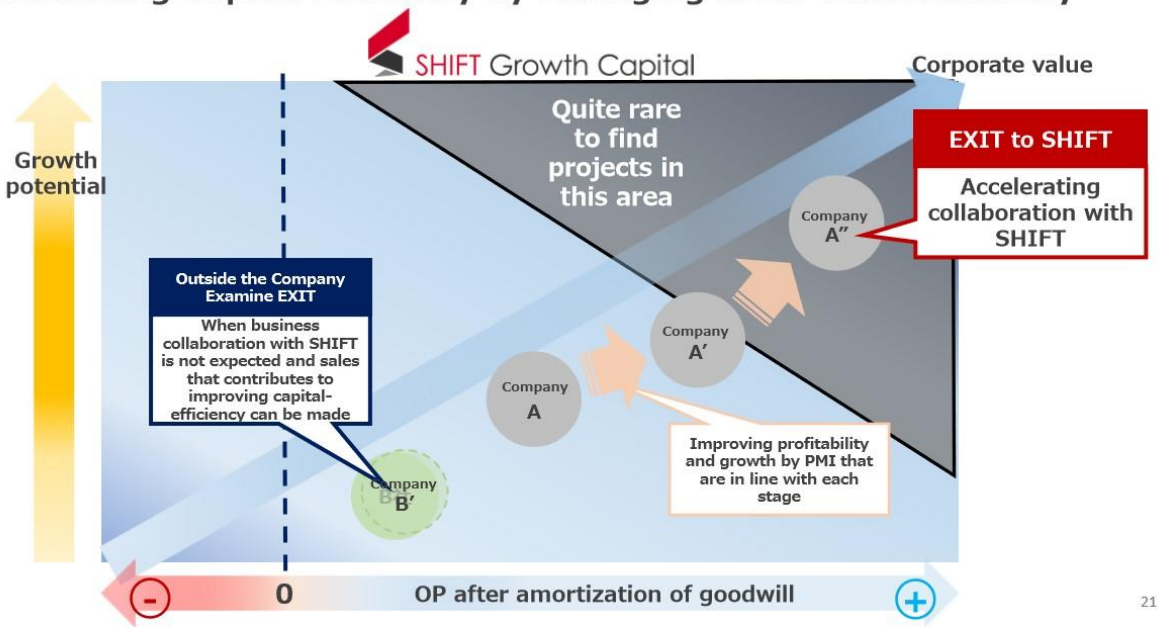
The second point is profitability. As I have said in the past, as we accumulate assets called goodwill, we incur the cost of amortization. We will ensure overall profitability by building up operating income in a manner that will not be beaten by this.

Furthermore, and this is a very important point, is the perspective of capital efficiency. This may be a bit lengthy, but first of all, SHIFT's overall operating cash flow is very positive. In other words, while growing at a rate of 50% per year, we have a strong financial structure that can generate operating cash flow while investing in growth. Cash flow from operations is the primary source of funds for M&A. In addition, we are considering procuring funds from banks on a case-by-case basis in an appropriate manner within an appropriate range on the balance sheet. This is our thinking regarding the base source of capital.

Alternatively, from a medium-term perspective, and a very rational point of view, I would like to consider capital-based financing for large-scale M&A, when the opportunity arises. The important point, however, is that we are considering designing measures to improve key indicators such as EPS over the medium term.

PORTFOLIO STRATEGY CONSIDERING CAPITAL EFFICIENCY

Controlling Capital Efficiency by Managing Risks Concentratedly

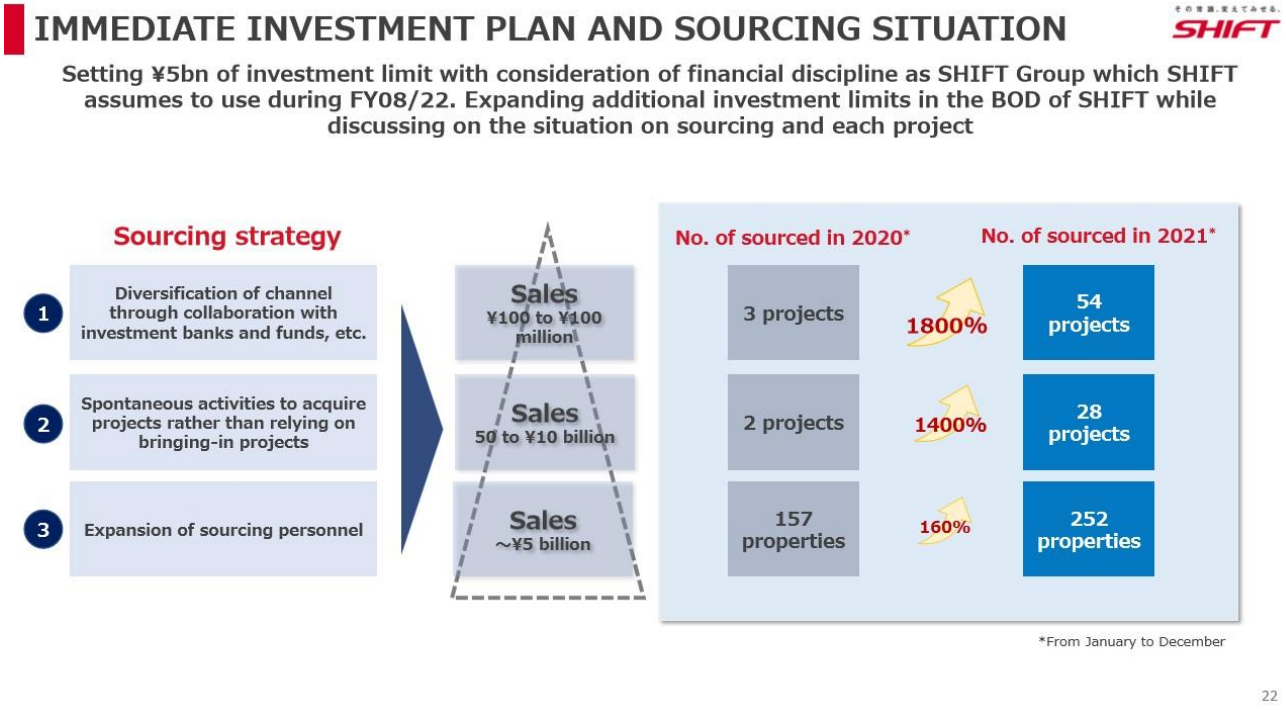


Next, let's look at the portfolio strategy. Naturally, here too, we want to advance operations while paying attention to capital efficiency. As I said earlier, the valuation is relatively inexpensive, and first, after joining the Group, we want to thoroughly protect the organization. Our greatest hope is that the companies will continue to move rightward and upward in terms of results, as long as we protect them.

A state of greatly increased growth potential or increased operating profit margin is a state of overwhelmingly advanced collaboration with SHIFT. We decided that, at that point, it would be best if SHIFT directly manages the Company, not Growth Capital, and so we are thinking of transferring the Company to SHIFT itself. "Exit" is written in the diagram, but it would be a transfer.

On the other hand, what if it doesn't work out? As the basic premise, we intend to thoroughly protect operating profit. However, if the collaboration with SHIFT does not go as smoothly as expected, it is possible that we may receive an offer at a higher price than our own rational valuation.

In such cases, we are also considering an exit to a third party that can improve capital efficiency. In this context, we will promote the optimization of the overall portfolio by also clearly visualizing ways of exit.



This is our investment framework. Naturally, the Board of Directors of SHIFT itself sets the investment limits. As for the current situation, we have decided to set the investment limit based on the reality of sourcing. In other words, how many projects are likely to be available and how much investment can be made.

In our FY2022 execution plan for this fiscal year, we have temporarily set the investment limit at JPY5 billion. In fact, the sourcing strategy is being implemented by Kojima, who is beside me here. And we have been working to expand our sourcing channels, to actively approach places that have brought in projects relatively frequently in the past, and to increase the number of people involved in sourcing itself. As a result, the number of sourcing projects has been increasing year-by-year in three segments: small, medium, and large.

We want to start with a conservative figure of JPY5 billion, and while monitoring the situation as appropriate, have SHIFT's Board of Directors discuss and decide on the figure.

In this way, we want to promote disciplined and risk-controlled investment throughout SHIFT.

WHAT SHIFT AIMS FOR

- Establishing SGC will **expand and accelerate the M&A/PMI strategy** of the SHIFT Group. By expanding the contribution of the group companies from their organic growth, SHIFT Group will increase the speed of achieving "SHIFT5000"
- In addition, group companies of the SHIFT Group will overcome the multi-subcontracting structure of the Japanese IT market **by improving and rationalizing the market environment** such as improving profitability, optimized compensation for employees and engineers, and securing human resources).
- These efforts will accelerate the pace of improvement in productivity of society as a whole and lead to what the SHIFT Group aims at as a "**SHIFT is a company that provides solutions to social issues**"

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WHAT SHIFT AIMS FOR

SHIFT is a company that
provides solutions to social issues

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Finally, I would like to talk briefly about the significance of M&A/PMI strategies.

Once again, this is what we want to achieve, and this is what SHIFT wants to achieve. The point this time is that by establishing SGC, we first want to expand and accelerate the M&A/PMI strategy for the entire SHIFT Group.

As a result, organic growth from group companies that joined us through mergers and acquisitions is contributing more and more, and thanks to the contribution of these companies, the achievement of

SHIFT5000, 1000, and 3000 now appears to be ahead of schedule. Furthermore, I would like to increase the speed at which we can achieve our goal of 5000.

Moving on to the next point. In what way are we going to implement this? To all the Group companies that have joined the SHIFT Group, we are not at all talking about simply increasing sales, cutting costs, or increasing profits. The business environment must first be thoroughly improved or normalized. Specifically, improve profitability, optimize compensation for employees and engineers, and as a result, more people will want to join or work here for a long time. By doing so, we hope to grow while reforming the so-called negative structure of the IT industry and the multiple subcontracting structure.

This initiative will increase the speed of productivity improvement in society as a whole by working together with the members of the SHIFT Group, rather than by SHIFT working alone and organically. I announce our M&A strategy with this aim in mind, hoping that we can grow as quickly as possible into “a company that resolves social issues."

Thank you for your attention.

Question & Answer

Hattori : We will now move on to the Q&A session.

The first question we have received is the following: Will you continue to also do M&A at SHIFT?

I think this is referring to SHIFT itself. In conclusion, yes, I believe so. The key to this issue is SHIFT's offensive PMI. This, of course, is a hypothetical process, but it takes a certain amount of time. It is about when it starts. This is quite difficult to calculate, to be honest.

So, as we consider how we can appropriately conduct PMI while maintaining a protective stance and creating a situation in which we do not lose money, we should not suddenly start with M&A, but rather, as an extension of our daily business together with SHIFT, in the form of a business alliance, M&A may occur.

At that time, the situation would be that business collaboration has already suddenly started, so I think M&A from SHIFT itself is possible. Or, if there is a clear mutual agreement from the beginning that SHIFT should do this, it would be possible to conduct M&A within SHIFT itself, I think.

The next question is about the JPY5 billion investment limit. Will you use funds on hand, or will you raise the funds?

This was also mentioned earlier. Basically, SHIFT is a cash-rich company, and thanks to its positive cash flow from operations, funds will continue to accumulate over time. We are still in a position to procure debt. So, we would like to use cash flow from operations as the basic source of funds and raise funds from the bank as needed.

The next question asks whether the size of projects will change.

I would like to aim for larger projects. But there are many companies that SHIFT can work with, and for small projects, you may wonder what the definition of "small" is. Therefore, I do not think that we are talking about not going small when we talk about continuing to increase the size of projects.

That seems to be all the questions for now. We will wait briefly, so if you have any additional questions, please take this opportunity to ask them.

Since there appear to be no further questions, I would like to conclude the live webcast of today's briefing.

Thank you for your participation. Thank you for your continued support.