September 12, 2023

Company name: RAKSUL INC.
Representative: Yo Nagami
Representative Director, President and CEO
(TSE Prime Market Code No. 4384)
Contact: Shinnosuke Nishida
CAO, SVP of Corporate

Notice Concerning Introduction of Post-Delivery Restricted Stock As Long-Term Incentive Package for Representative Director, President & CEO

RAKSUL INC. (hereinafter referred to as the "Company") hereby announces that, at the Board of Directors' meeting held today, the Company reviewed the executive compensation plan and resolved to establish a long-term incentive package for Yo Nagami, who assumed the position of Representative Director, President and CEO on August 1, 2023, to introduce a post-delivery restricted stock plan (hereinafter referred to as the "Plan") as one of the incentive packages. A proposal related to the Plan will be submitted to the 14th Annual General Meeting of Shareholders scheduled to be held on October 26, 2023 (hereinafter referred to as the "General Meeting of Shareholders").

For the overview of the long-term incentive package, please refer to below (Reference).

1. Purpose and Conditions of Introduction of the Plan

(1) Purpose of Introduction

The Plan was introduced with the aim of promoting further value sharing with our shareholders, as well as to encourage Yo Nagami (hereinafter referred to as the "Subject Director"), who assumed the position of Representative Director, President and CEO on August 1, 2023, to exercise strong leadership to achieve discontinuous growth towards the realization of the Company's vision, "BETTER SYSTEMS, BETTER WORLD." More specifically, in order to align the leadership of the Subject Director and RAKSUL's further growth in the next 10 years, the Company intends to create an environment where the new CEO can focus on promoting the increase of the long-term corporate value as a "founder" of the next decade instead of a successor (hired CEO). The Company has already introduced a restricted stock-based compensation plan for directors other than those who are Audit & Supervisory Committee members, but this new post-delivery restricted stock plan will not be granted to directors other than the Subject Director.

(2) Conditions for Introduction

The introduction of the Plan is subject to the approval of shareholders at the General Meeting of Shareholders of the compensation proposal concerning the Plan.

The maximum amount of remuneration for the directors (excluding directors that are Audit & Supervisory Committee members) was resolved at the 10th Annual General Meeting of Shareholders held on October 17, 2019, to be no more than 300 million yen per year (including no more than 30 million yen for Outside Directors). Separately, at the same Annual General Meeting of Shareholders, it was resolved that the annual amount of remuneration for the allotment of restricted stock shall be no more than 500 million yen (including 50 million yen for Outside Directors), and the total number of restricted stocks to be allotted shall be no more than 266,000 shares (including 26,000 shares for Outside Directors). None of these limits include salaries for employees. *The number of shares has been adjusted for the stock split on February 1, 2023.

In connection with the introduction of the Plan, the Company plans to seek the approval of shareholders at the General Meeting of Shareholders for the establishment of a remuneration limit for the Plan for the Subject Director, which will be separate from the respective remunerations mentioned above. The Board of Directors of the Company shall determine the specific timing and details of the delivery to the Subject Director within the limit of the remuneration in accordance with the details set forth below.

The monetary compensation for the Subject Director is based on an annual amount of 18 million yen as a fixed remuneration, with the intention of designing a remuneration system that shares interests with the shareholders by placing a higher weight on stock-based compensation and motivating the Subject Director to contribute to the continuous improvement of the corporate value.

2. Summary of the Plan

The Plan is a post-delivery type stock-based compensation plan under which the rights to the shares are granted to the Subject Director only when certain conditions are met each year and the rights for the portion granted for the fiscal year are vested as compensation for the performance of his duties during the 10 fiscal years from FY2023 (August 1, 2023 to July 31, 2024), when he assumed the position of Representative Director, President & CEO, to FY2032 (August 1, 2032 to July 31, 2033). The conditions under which the shares are to be delivered are that the Subject Director shall continuously hold office as Representative Director, President and CEO until the end of the relevant fiscal year (hereinafter referred to as the "Service Conditions") and that the he shall achieve the performance condition previously determined by the Nomination and Remuneration Committee (hereinafter referred to as the "Performance Conditions"); provided, however, that the number of shares to be delivered does not vary according to the degree of performance achieved. In addition, there is no plans at this time to enter into an agreement between the Company and the Subject Director regarding the transfer restrictions of shares when the shares are delivered. Since the Plan is the compensation for the Subject Director for the execution of his duties for the 10 fiscal years, there is no plan to introduce any other stock-based compensation plan until such period has elapsed, except for the details described below (Reference).

3. Details of Remuneration under the Plan

(1) Calculation Method for Remuneration under the Plan

The Company shall grant the Subject Director 87,700 Restricted Stock Units (hereinafter referred to as "RSU"), representing 87,700 shares, which is approximately 0.15% of the Company's 58,476,092 total outstanding shares, per fiscal year. RSU will be granted for the 10 fiscal years from FY2023 to FY2032. Only if both the Service Conditions and Performance Conditions have been satisfied for each fiscal year, the rights will be vested at the conclusion of the Annual General Meeting of Shareholders for the relevant fiscal year.

The Performance Conditions established by the Board of Directors in response to the proposal by the Nomination and Remuneration Committee are as follows.

[Performance Conditions]

Consolidated gross profit growth for the subject fiscal year shall be more than 15% YoY.

However, if the Board of Directors of the Company recognizes by a resolution that the year's growth rate is less than 15% due to acquisitions, etc., made in the previous fiscal year of the relevant fiscal year, an average annual growth rate of more than 15% for two years shall suffice.

Upon the vesting of RSU, the Company shall, at the first Board of Directors' meeting held after the vesting, decide to issue new shares or dispose of treasury shares in the number of the Company's common stock equivalent to one share per RSU for the relevant fiscal year, which shall be delivered to the Subject Director without compensation. After the gratis delivery of shares, if the performance for the relevant fiscal year is revised and the revised performance does not satisfy the Performance Conditions, the Company may request the return of the delivered shares.

In principle, RSU for each fiscal year shall expire if the Service Conditions are not fulfilled, however, as an exception, if the position of Representative Director, President and CEO is forfeited for reasons deemed justifiable by a resolution of the Board of Directors of the Company, the Board of Directors shall separately determine the percentage of shares to be issued in consideration of the percentage of the tenure of the Subject Director during the relevant fiscal year.

In the event of a loss of the position of Representative Director, President and CEO due to death (including death before vesting), RSU for the relevant fiscal year shall be paid in cash, converted at the market value of the Company's shares at the time of death, to the successor in title designated from among his heirs.

In addition, in the event of approval of a merger in which the Company becomes a dissolving company, a split-off type corporate split in which the Company becomes a split company, a share exchange in which the Company becomes a wholly owned subsidiary, a share transfer, a reverse stock split, or other means in which the Company becomes private, settlement shall be made in the amount of money reasonably calculated under certain conditions.

(2) Upper Limit of Remuneration under the Plan

The total number of shares to be delivered to the Subject Director under the Plan through RSU for the 10 fiscal years between FY2023 and FY2032 shall be 877,000 shares or less. However, if the total number of outstanding shares of the Company increases or decreases due to a reverse stock split or a stock split (including the allotment of shares without compensation) after the resolution of the General Meeting of Shareholders and before the delivery of shares, the ratio shall be adjusted according to the ratio of the reverse stock split or stock split.

(3) Reasons for Forfeiture of the Right to Receive Remuneration under the Plan

The Subject Director shall forfeit the right to receive remuneration under the Plan in the event of certain misconduct as determined by the Board of Directors or resignation for certain reasons as determined by the Board of Directors, and in the event of such misconduct, the Company may demand the Subject Director to return the shares already delivered.

(Reference)

Overview of the Long-Term Incentive Package for CEO Yo Nagami

In addition to the Plan, the Company intends to provide loans to Yo Nagami, who has assumed the position of Representative Director, President and CEO, for the purchase of paid stock options and shares of the Company's stock with stock price conditions and performance conditions, subject to the approval of the Plan at the General Meeting of Shareholders.

The paid stock options are designed to be exercisable in stages, with the conditions for exercise set at market capitalization exceeding 500 billion yen to one (1) trillion yen and adjusted EBITDA exceeding 10 billion yen to 20 billion yen by fiscal 2032, in order to provide an incentive plan for the long-term increase of business performance and corporate value.

With respect to financing for the purchase of the Company's shares, Nagami personally plans to acquire the Company's outstanding shares in the amount of 1.2 billion yen through an Over the Counter transaction with Yasukane Matsumoto, the Chairman and Representative Director, and purchase from the market, which will be executed as a transaction by Nagami personally. The actual purchase from the market will be made at the discretion of a securities company within a certain price and conditions. For the purchase, the Company plans to provide loans to Nagami personally for the purchase with appropriate asset protection measures in place.

As of July 31, 2023, Nagami held 1,058,300 shares (1.8% of outstanding shares), including dilutive shares; after the completion of the purchase, the number of shares Nagami holds will be 1,935,300 shares (3.3% of outstanding shares). In addition, if all of the shares delivered under the Plan and the paid stock options are exercised, the total number of shares Nagami holds will be 3,689,300 (6.3% of outstanding shares).

Regarding the Long-Term Incentive Package, the Subject Director Nagami commented as follows.

"I am committed to maximizing our corporate value over the long-term as the "second founder" to been handed the baton, in order to realize the vision of the Company, "BETTER SYSTEMS, BETTER WORLD" created by the founder, Yasukane Matsumoto. The introduction of this Long-Term Incentive Package designed by the Nomination and Remuneration Committee and the Board of Directors is essential in creating an environment to engage in management with Founder-like commitment and long-term perspective. Furthermore, in addition to receiving compensation, I would like to build an environment in which the management is conducted from the same perspectives as shareholders and investors by taking risks and purchasing the shares myself. Monetary remuneration is kept at a lower level than the remuneration standard for management in the Japanese labor market, and the compensation design focuses on stock remuneration."

Finally, the following is a comment from Kenji Kobayashi, Chairman of the Nomination and Remuneration Committee, regarding the Long-Term Incentive Package.

"RAKSUL has achieved unprecedented growth to date under the leadership of its founder Yasukane Matsumoto. Now, we are taking on the challenge of succession from the founder, a difficult challenge that many startups face at some point.

Mr. Nagami, who will be the new CEO, has a great track record as CFO and his appointment has been much awaited. As he has already announced in his CEO message, he has strong ambitions to not simply inherit the ideas of the founder Matsumoto but to demonstrate his own leadership and take RAKSUL to the next stage.

The Nomination and Remuneration Committee has been working for several months to align the leadership of Mr. Nagami with the further growth of RAKSUL in the coming decade.

In designing the remuneration, based on the concept that the new CEO would not merely be a successor (hired CEO) but becomes a "founder" for the increase of corporate value over the next 10 years, the Nomination and Remuneration Committee, with the help of outside advisors, as well as other directors, had numerous discussions. As a result, we were finally able to submit a proposal that was designed to promote the enhancement of corporate value from a long-term perspective.

In addition to RSU issued by the Company, by combining the paid SO and stock purchase through a loan to align with shareholders, the CEO will commit himself to the next 10 years of management, taking risks with the "founder" spirit.

We would be grateful if our shareholders would support this remuneration proposal (and the accompanying Long-Term Incentive Package)."

*For the overview of the Long-Term Incentive Package, please refer to "Financial Results for the Fiscal Year Ending July 31, 2023" (excerpts below) published today.

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Incentive Design for CEO

- Multiple alignment tools with the shareholders' viewpoint, in order to ensure that the new CEO will not merely be a hired successor, but become a "founder" who will be responsible for increasing the company's value over the next 10 years
- While monetary compensation level is lower than that of other listed companies, the ratio of equity compensation is set at the highest possible level to encourage long-term commitment
- All incentive grants to be contingent upon approval of the grant of RSUs at the 14th Annual General Meeting of Shareholders

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Name	Format	Number of Shares (Dilution %(1))	Conditions of Exercise, etc.	PL/BS Impact(2)
Monetary Compensation	Monetary Compensation	-	-	Executive compensation expenses
Restricted Stock Units (RSU)	Stock-Based Compensation (Service requirement + Single year performance requirement)	Total for 10 years Maximum 877,000 Shares (1.50%)	Removal of restrictions on the transfer of 87,700 shares each after the end of each fiscal year, provided that the following two conditions are met (if not met, the share will be forfeited for that fiscal year) ・Remain as CEO until the end of each fiscal year ・Consolidated gross profit growth of over 15% YoY	Expense of approx. JPY 120MM per year
Stock Options (Paid-in SO)	Performance Target Linked (Stock price requirement + Performance requirement)	877,000 Shares (1.50%)	3 tranches setting (share price requirement and performance requirement) 1. Share price of 8,500 yen (market capitalization of approximately 500 billion yen) + EBITDA of 10 billion yen: 20% exercisable 2. Share price 12,000 yen (market cap of approx. 700 billion yen) + EBITDA of 15 billion yen: 33% exercisable 3. Stock price of 17,000 yen (market capitalization of approximately 1 trillion yen) + EBITDA of 20 billion yen: 47% exercisable Performance evaluation after 5 years for a period of 10 years	Expense of approx. JPY 80MM per year
Negotiated Transaction	Capital Gain	877,000 Shares (0.00%)	No dilution due to the fact that this is a secondary transaction and not an issuance of new shares Company stocks will be purchased from the founder, Yasukane Matsumoto, and the stock market in a negotiated transaction (We lend part or all of the funds)	-
Total		1,754,000 Shares + 877,000 Shares (3.00%) (0.00%)		Expense of approx. JPY 200MM per year

Notes
(1) Based on 58,476,092 shares (581,858 voting rights), the total number of outstanding shares of the Company as of July 31, 2023
(2) Calculated based on an estimated share price of JPY 1,400 yen

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