

# ENECHANGE

## Notice Concerning "Capital & Career Committed Mega-Venture Incentive" (Supplementary explanatory material)

ENECHANGE Ltd.

January 5, 2024

Tokyo Stock Exchange Growth

Securities Code: 4169



# Overview of the "Capital & Career Mega-Venture Incentive" package

<b>Objective</b>	We aim to realize a Mega-Venture (with a market capitalization of over 100 billion JPY) through a package that integrates commitment and incentives for the next generation of management candidates - our most important human capital.
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<b>Scheme</b>	<b>Overview</b>	3.5 shares of paid stock options (with exercisable conditions) per purchase of one transferred share
	<b>Volume</b>	Transferred shares (transaction with Ippei Arita): 700,000 shares (dilution rate 0%, with lock-up) Paid Stock Options (hereinafter referred to as SO): Equivalent to 2,450,000 shares (dilution rate of 7.92%* <sup>1</sup> , with exercisable conditions)
	<b>Exercisable conditions</b>	<ul style="list-style-type: none"> <li>• Achieving A during the period from FY25 to FY32, and also achieving either B or C.               <ul style="list-style-type: none"> <li>A. 13 billion JPY in sales plus 1 billion JPY in ordinary profit.*<sup>2</sup></li> <li>B. Market capitalization of 100 billion JPY (achieved on five consecutive working days).*<sup>3</sup></li> <li>C. Listed on the Tokyo Stock Exchange Prime Market.</li> </ul> </li> <li>• At the time of the achieving the above conditions, being in full-time employment and maintaining continued ownership of the transferred shares.</li> <li>• From the time of the achieving the above conditions, the right to exercise 50% annually.</li> </ul>
	<b>Exercise price</b>	1,055 JPY per share (Issuance price: 10 JPY per share)* <sup>4</sup>
	<b>Additional terms</b>	Some of the funds for stock purchase will be provided as a loan from the company (excluding the CEO).
	<b>Profit and loss impact</b>	A stock-based compensation expense of 1,790 million JPY* <sup>5</sup> will be progressively recognized from the FY25, considering the likelihood of achieving the conditions.

<b>Participants</b>	<p>48 Individuals who have demonstrated voluntary interests from the pool of next-generation management candidates, participated in this package.</p> <ul style="list-style-type: none"> <li>■ CEO: 1   ■ Executive officers: 12 / Subsidiary director: 1 / Employees: 34 (including 11 engineers)</li> </ul>
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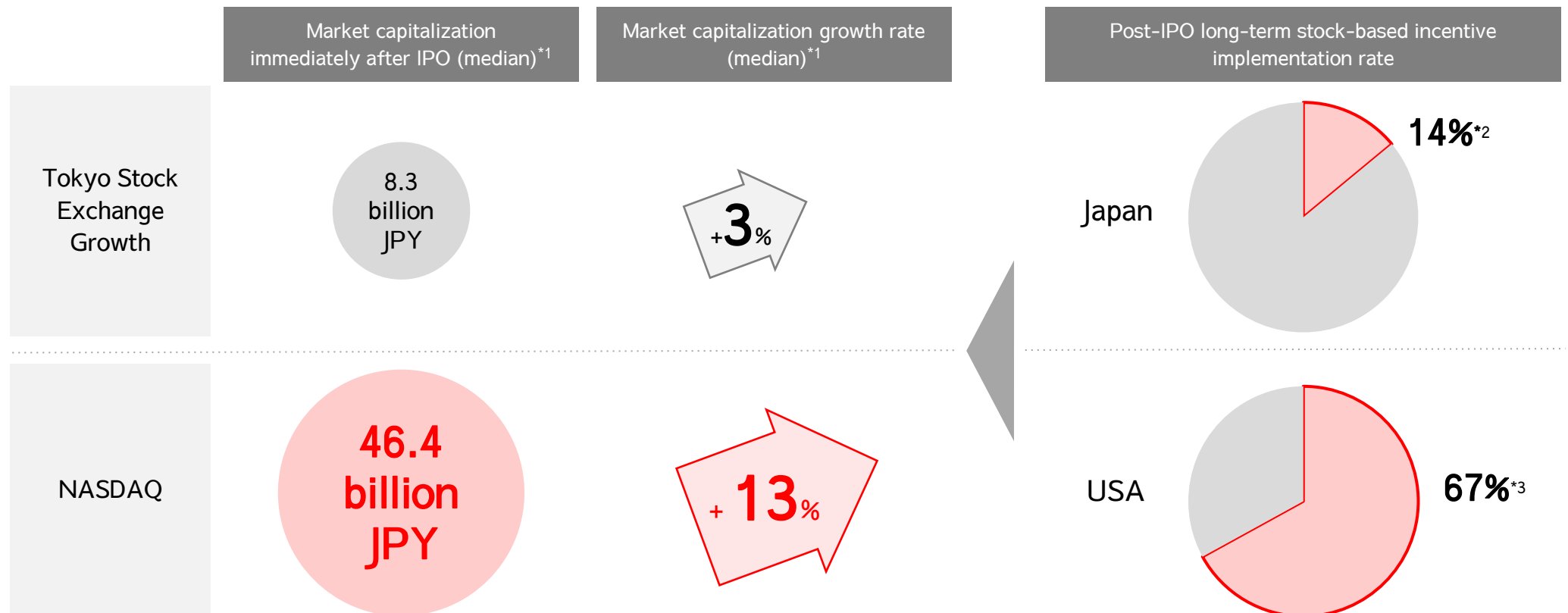
\*1 : Calculated based on the total issued shares as of the end of December 2023, which is 30,935,684 shares. \*2 : Excluding stock-based compensation expenses.

\*3 : Based on the number of outstanding shares. \*4 : Calculated based on the closing price of the day before the resolution date by Plutus Consulting.

\*5 : Estimated value as of the current date (scheduled to be determined on the allocation date of January 22, 2024).

# Background

- In TSE's Growth Market, many companies have suffered a stagnation in stock price post-IPO.
- The underdeveloped stock-based compensation post-IPO makes growth companies difficult to invest in human capital compared to large corporations and unlisted startups.
- By introducing a stock-based compensation incentive packages equivalent to those in the United States, we aim to encourage executive management to grow our company into a "Mega-Venture" (with a market capitalization of over 100 billion JPY).



<sup>\*1</sup> : Joint research report on the post-listing growth trough, by Professor Katsushi Suzuki of Hitotsubashi University and Growth Capital Inc.. The market capitalization growth rate is reported for the three periods following the initial public offering (IPO).

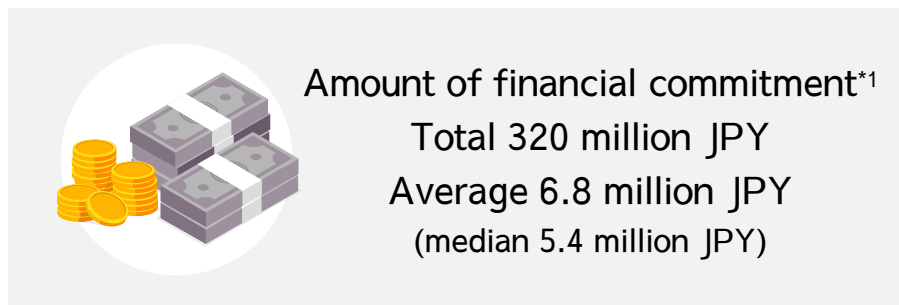
<sup>\*2</sup> : Percentage of companies that have introduced medium-term indicators as performance-linked remuneration in the Ministry of Economy, Trade and Industry's 'Executive remuneration to promote 'aggressive management' - Guide to introducing incentive plans for sustainable corporate growth' (version as of March 2023).

<sup>\*3</sup> : The percentage of global high market capitalization companies adopting stock-linked compensation, as reported by Alliance Bernstein in "Investors Beware - Earnings Forecasts Omit Stock Compensation," August 2023.

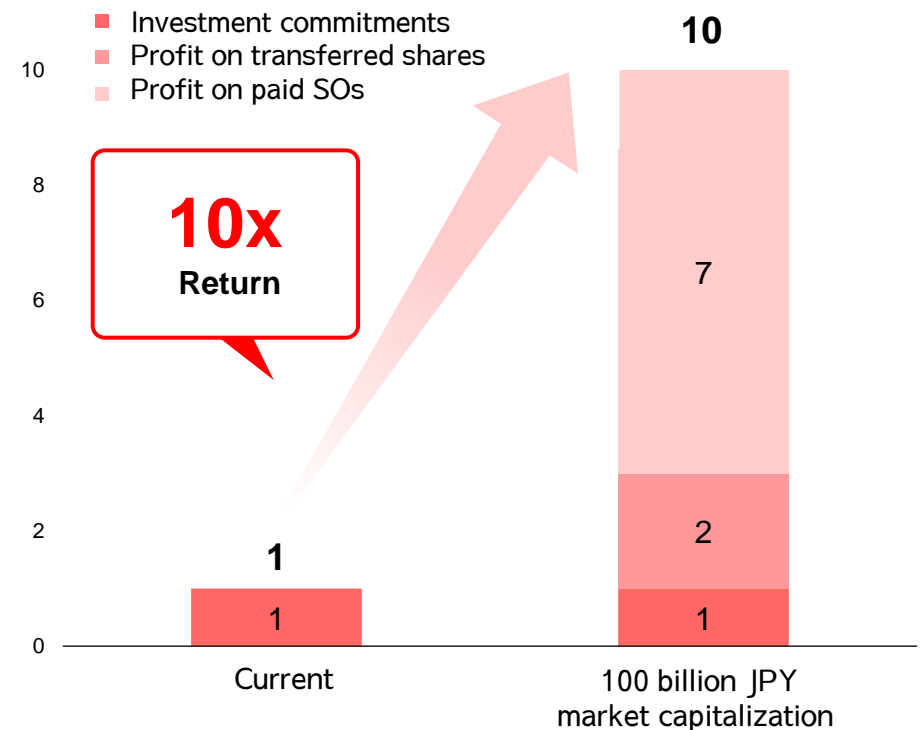
# Purpose

- Participants in this incentive scheme are required to demonstrate a long-term commitment in the form of a financial lock-up and a full-time employment commitment until the conditions are met.
- The transfer of shares from Ippei Arita (co-founder and CTO) clarifies the transition in management roles. Additionally, CEO Yohei Kiguchi invests an amount equal to the sum of other participants.
- This package is designed to yield a tenfold return upon reaching a market capitalization of 100 billion JPY, comparable to the return from pre-IPO to IPO. The stock price target is set to surpass dilution and align with shareholder interests.

## ■ Commitment of participants



## ■ ROI (when the stock price triples)



\*1 : Excluding CEO's commitment

# Exercisable conditions

- Performance targets: Significant revenue and profit growth from FY24 onwards.
- Setting “Exercisable conditions” that exceed the current medium-term target (revenue of 10 billion JPY by FY27).
- Designing in line with the listing criteria for the TSE Prime Market (revenue of 10 billion JPY and market capitalization of 100 billion JPY, or a total ordinary profit of 2.5 billion JPY over two periods).

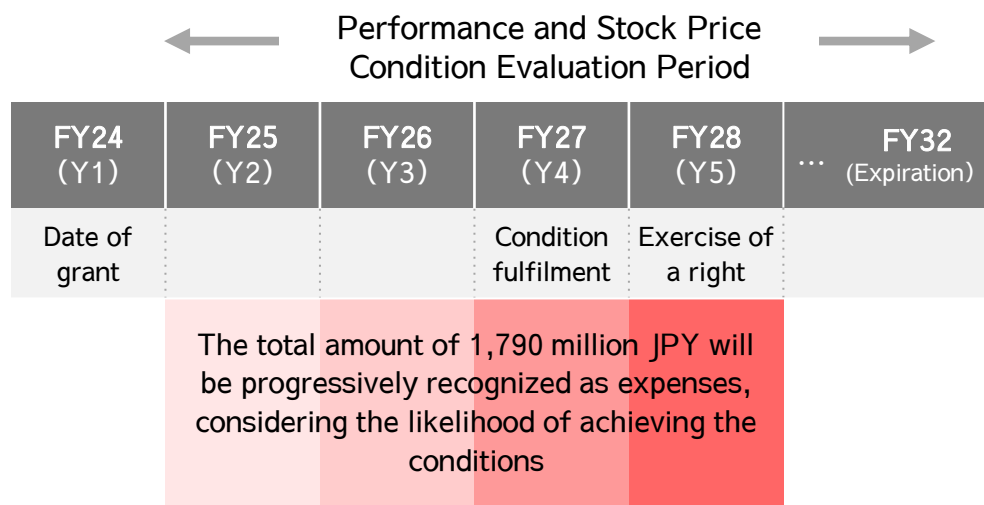
	Current	Medium-term plan (FY27)	Exercisable condition (aim for FY27 to FY30)	
Sales	6.5 billion JPY*1	10 billion JPY	13 billion JPY	+100%
Ordinary profit	-1.3 billion JPY*1	-	1 billion JPY	+2.3 billion JPY
Market cap	32 billion JPY*2	-	100 billion JPY	+213%

\*1 : From "Notice Concerning the Revision of the Earnings Forecast" , November 10, 2023 \*2 : Based on December 29, 2023 TSE closing price

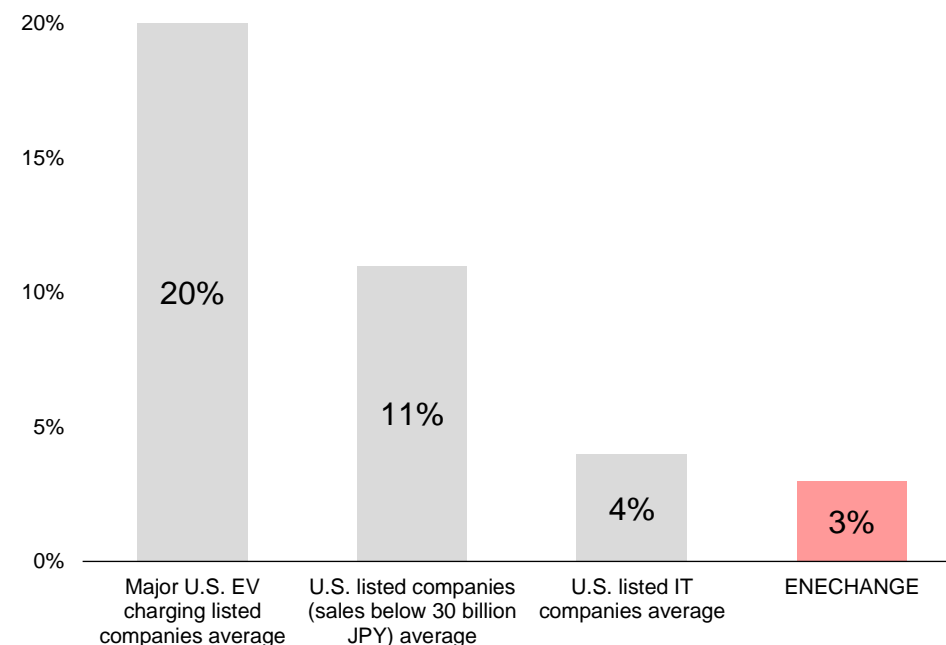
# Impact on future performance

- The fair value of the paid stock options (SO) is estimated at 1,790 million JPY, and expenses will be progressively recognized over the period until the fiscal year following the year in which all SO are expected to become exercisable.
- Adjusted operating profit (excluding stock-based compensation expenses from operating profit) is planned to be used in guidance for FY24 onwards.
- The ratio of stock-based compensation expenses to revenue is 3%\*1, which is expected to be below the average for US companies\*2 (4% for IT listed companies, 11% for companies with sales below 30 billion JPY), and below 20%+ for major US EV charging companies\*3.

## ■ The concept of stock compensation expense recognition assuming conditions are met in FY27



## ■ Ratio of stock-based compensation expense to revenue



\*1 : The estimated value for the FY2027 revenue target, assuming the required stock compensation expense amount is evenly recognized as an expense over the period from FY25 to FY28

\*2 : Morgan Stanley, 'Stock Based Compensation: Unpacking the issues', April 2023. Companies with revenues of less than 30 billion JPY are those in the same survey falling in the 101M-240M USD range

\*3 : Calculated based on the average of the most recent fiscal year's published financial results of ChargePoint, BLINK, and EVGO in the United States.

## Voices from co-founders



Yohei Kiguchi, Co-founder & CEO

I believe this "Capital & Career Committed Mega-Venture Incentive" package is a crucial stepping stone for creating a mega-ventures in Japan.

Growth Market companies face challenges and stagnation due to insufficient investment in human capital compared to US companies and unlisted ventures. This is a major concern for us as well.

We have set a goal to triple our stock price. To achieve this, I, along with 47 next-generation executive members, are fully committed both financially and in our careers, to enhance shareholder value.



Ippei Arita, Co-founder & CTO



Following my transition from the board and focus on supporting new technology developments, I will transfer about half of the shares I have received as my stock-based incentives to new talents who will support the next phase of growth.

The stock-based incentives have been a strong motivation for me to keep going. I am confident that passing on this baton will invigorate the entrepreneurial spirit of the next management team, leading to an increase in shareholder value.

## Voices from candidates for the next management pool



**Yoshihisa Naito, Executive Officer**

I believe that achieving the revenue and profit targets, as well as upgrading to the Prime Market listing, are essential for the company. The fulfillment of these objectives will enable me to build my personal assets, which in turn strengthens my commitment to the company.

Furthermore, the fact that my colleagues participating in this program are pursuing the same risk-reward, convinces me that this is a good strategy. It allows us to move forward together from a long-term perspective as a team.



**Takashi Iwamoto, Senior Engineer**

Recruitment in engineering is highly competitive in the job market, and I have received many attractive offers, such as startup CTO. I have also seen many employees leave us, seeking opportunities for challenge outside the company.

One of the reason is that unlisted startups can offer greater financial returns and challenging opportunities for engineers. However, I believe that this incentive package will be a good case for post-IPO companies to hire and retain talent. I am convinced that this initiative will motivate our talented engineers to take on further challenges together.



**Nozomi Hayasaki, HR**

Since joining ENECHANGE, I've been in an environment where the distance to the management team is very close, and tasks proceed at an incredible speed. Thus, I've realized the necessity for employees to acquire an ownership mindset.

In this context, I've developed a strong awareness towards stock price as one of the key performance indicators. This program further strengthens that awareness, making it a fantastic initiative where all employees can view business growth as their own mission, bringing a sense of heightened responsibility.



**Takumi Tokiwa, Lead Engineer**

Previously, I used to change jobs every three years, seeking opportunities for new challenges. Now, approaching my third year at ENECHANGE, I initially thought it might be time for a change, in line with my past mindset.

However, ENECHANGE offers me an opportunity where I can constantly take on new challenges among talented colleagues as well as incentives through this program, therefore I am convinced to commit all my resources to ENECHANGE both in terms of career and financials for the long term.



## Supplemental Explanation

No	Questions	Answers
1	Why is the Company implementing this package now?	<ul style="list-style-type: none"> <li>● As per page 3, we recognize that many growth companies experience stagnation in performance and market capitalization due to insufficient investment in human capital after IPO. We have concluded that designing a system that combines a commitment to stock purchases with stock-based incentives modeled after US examples is the optimal solution for realizing future growth.</li> <li>● The company has been revisiting our optimal management structure and corresponding capital composition approximately every 4-5 years since our founding. The previous one was in 2019.</li> </ul>
2	What are the ideas behind dilution rate and exercisable conditions?	<ul style="list-style-type: none"> <li>● As outlined on page 5, the exercisable conditions were set to exceed the current medium-term target and are aligned with the listing criteria for the TSE Prime Market.</li> <li>● We believe that the dilution rate should fundamentally be discussed in conjunction with the growth in market capitalization that benefits shareholders. Considering that one of the exercisable conditions is achieving a market capitalization of 100 billion JPY, which is more than +200% above the current level, the dilution rate that would only be realized upon achieving this return is deemed reasonable.</li> </ul>
3	What will be Ippei Arita's future role? Will there be any impact on the management structure?	<ul style="list-style-type: none"> <li>● Since the founding of the company, Ippei Arita has continuously supported our management as a representative director, and post-IPO, he has primarily overseen our data business. Since stepping down from the board in March 2023, he has been transferred to a new management team. Moving forward, the plan is for him to shift to a role more focused on technical involvement and organizational support as CTO.</li> </ul>
4	What will be the specific accounting treatment for the paid stock options?	<ul style="list-style-type: none"> <li>● The fair value per unit for accounting purposes (approximately 70%+ of the share price on the allocation date) will be obtained from an independent appraisal agency, and the total stock-based compensation expense will be calculated by multiplying the number of shares to be issued upon the exercise of the SOs.</li> <li>● Starting from FY25 (the beginning of the performance and stock price condition evaluation period), the probability of achieving various conditions will be estimated quarterly. This probability will then be applied to the total amount, and the amount considering potential forfeitures due to retirement will also be accounted for.</li> </ul>

## Disclaimer

These materials contain statements regarding future prospects. These statements have been prepared based on information available at the time they were prepared. These statements are not guarantees of future results, and contain risks and uncertainties. Please note that actual results may differ greatly from the outlook due to changes in the business environment, etc. Factors affecting actual results include, but are not limited to, domestic and international economic conditions and trends in industries connected to the Company.

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