



July 12, 2021

SMS Co., Ltd.

(Company Code: 2175, TSE 1st Section)

<https://www.bm-sms.co.jp/en/>

<PRESS RELEASE>

Notice regarding Issuance of Paid-in Stock Options
(The 17th Stock Acquisition Rights) with Performance Conditions

SMS Co., Ltd. (the “Company”) hereby announces that, on July 12, 2021, its Board of Directors has resolved to issue the 17th Stock Acquisition Rights (the “Stock Acquisition Rights”) to directors and employees of the Company as outlined below, pursuant to the provisions of Articles 236, 238, and 240 of the Companies Act.

The Stock Acquisition Rights will be issued to the subscribers with charge at a fair price and, as such, will not be allotted on the conditions particularly favorable to them. Therefore, the issuance will be conducted without approval of the General Meeting of Shareholders. The Stock Acquisition Rights shall not be issued as compensation to subscribers. Each of the subscribers shall undertake the rights on his/her investment decision.

I. Purpose and Reasons for Issuance of Stock Acquisition Rights

With the Group mission of “We aim to improve the quality of life by providing information infrastructure for an aging society,” the Company provides more than 40 services in Medical Care, Elderly Care, Healthcare, and Senior Life in Japan and abroad, including career business like recruiting agent, management support platform for elderly care operators (Kaipoke) and medical information service in Asia-Oceania.

Since its establishment, the Company marked rises in sales and profits for 17 consecutive years. To achieve the Group mission, however, we need to continue to grow the existing businesses and promote the development and nurturing of new businesses for further business expansion. Accordingly, the Company has decided to issue the Stock Acquisition Rights with the aim of enhancing directors’ and employees’ morale and motivation toward business expansion and an increase in corporate value.

As described in “II. Guidelines on Issuance of Stock Acquisition Rights, 3. Details of Stock Acquisition Rights, (6) Conditions for exercising Stock Acquisition Rights,” these

Stock Acquisition Rights will become exercisable only when the adjusted operating income (*) in the fiscal year ending March 2024 achieves a predetermined level. The Company has chosen the adjusted operating income as the benchmark because it aims for continued profit growth as an important management objective and the adjusted operating income will be the most appropriate measure of the contribution of directors and employees to the expansion of business and the increase in corporate value. Specifically, the exercisable rate is set based on the growth rate of the adjusted operating income. The exercisable rate shall be: 10% when the adjusted operating income for the fiscal year ending March 2024, exceeds the amount with an average annual growth rate of 10% compared to the adjusted operating income for the fiscal year ended March, 2021; 70% when the adjusted operating income exceeds the amount with an average annual growth rate of 15%; and 100% when the adjusted operating income exceeds the amount with an average annual growth rate of 20%. By clarifying the differences of economic advantages enjoyable depending on the achievement levels of performance targets, this plan is to bolster incentives for directors and employees who are allottees of these Stock Acquisition Rights to achieve the Group's long-term growth.

In the event that all the Stock Acquisition Rights are exercised, the maximum number of shares to be issued will be 183,000 shares, which is approximately 0.21% of the total number of issued shares as of the date of resolution of issuance. However, the Stock Acquisition Rights are exercisable on the condition of the Company's achieving the predetermined performance target and the Company believes that the achievement of the target will help improve the corporate value and shareholder value and contribute to the interests of the existing shareholders. Accordingly, the Company regards that the size of share dilution by issuing the Stock Acquisition Rights comes within a reasonable range.

(*) The amount obtained by adding stock-based compensation expenses in the notes to the consolidated financial statements in the Company's annual securities report for the relevant fiscal year, to operating income of the consolidated statement of income in the said report.

II. Guidelines on Issuance of Stock Acquisition Rights

1. Number of Stock Acquisition Rights

1,830 units

The total number of shares that may be delivered upon exercise of Stock Acquisition Rights shall be 183,000 shares of the Company's common stock. If the number of shares underlying one Stock Acquisition Right is adjusted in accordance

with 3. (1) below, the said total number of Stock Acquisition Rights shall be obtained by multiplying the adjusted number of shares underlying one Stock Acquisition Right by the number of Stock Acquisition Rights above.

2. Amount of payment for Stock Acquisition Rights and method of calculation thereof

The issue price shall be 4,000 yen per Stock Acquisition Right. The amount has been determined based on the calculation conducted by Plutus Consulting Co., Ltd. ("Plutus"), an independent appraisal institution, which took information about the Company's share price and others into consideration. In the process of computation, Plutus used the Monte Carlo simulation, a widely used pricing model of an option.

3. Details of Stock Acquisition Rights

(1) Class and number of shares underlying Stock Acquisition Rights

The number of shares underlying one Stock Acquisition Right (the "Number of Shares Granted") shall be 100 shares of the Company's common stock.

If the Company has, subsequent to the allotment date of the Stock Acquisition Rights, conducted a stock split (including, hereinafter, gratis allotment of the Company's common stock) or reverse stock split, the Number of Shares Granted shall be adjusted using the formula shown below; provided that such adjustment shall be made only for the number of shares underlying the unexercised Stock Acquisition Rights at that point in time, and any fraction less than one share resulting from the adjustment shall be rounded down to the nearest whole number:

Adjusted Number of Shares Granted =

Number of Shares Granted before adjustment × Split (or reverse split) ratio

If the Company has, subsequent to the allotment date of the Stock Acquisition Rights, carried out a merger or company split, reduced its stated capital, or otherwise needed to adjust the Number of Shares Granted in a manner similar to these, the Number of Shares Granted shall be appropriately adjusted to the extent deemed reasonable.

(2) Value of property to be contributed upon exercise of Stock Acquisition Rights and methods of calculation thereof

The value of property to be contributed upon exercise of Stock Acquisition Rights shall be determined by multiplying the amount to be paid in per share (the "Exercise Price") by the Number of Shares Granted.

The Exercise Price shall be 3,290 yen (The closing price of the Company's share on

the Tokyo Stock Exchange on July 9, 2021, the day immediately prior to the date of the resolution by the Board of Directors of the Company determining the issuance of Stock Acquisition Rights).

If the Company has, subsequent to the allotment date of the Stock Acquisition Rights, effected a stock split or reverse stock split, the Exercise Price shall be adjusted using the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up to the nearest yen:

$$\text{Adjusted Exercise Price} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Split (or reverse split) ratio}}$$

If the Company has, subsequent to the allotment date of the Stock Acquisition Rights, issued new shares or disposed treasury shares at a price below the market value (meaning a price that is particularly low compared to a fair issue price) of the common stock of the Company (excluding the cases of the issuance of new shares or the disposal of treasury shares due to the exercise of the Stock Acquisition Rights, and the transfer of treasury shares through share exchange), the Exercise Price shall be adjusted using the following formula. Any fraction less than one yen resulting from the adjustment shall be rounded up to the nearest yen:

$$\text{Adjusted Exercise Price} = \text{Exercise Price before adjustment} \times \frac{\text{Number of shares outstanding} + \frac{\text{Number of new shares issued} \times \text{Amount to be paid in per share}}{\text{Market price per share before issuance of new shares}}}{\text{Number of shares outstanding} + \text{Number of new shares issued}}$$

In the formula above, the “Number of shares outstanding” shall be the total number of issued shares of the Company’s common stock, less the number of treasury shares of the Company’s common stock; and in the event that treasury shares of the Company’s common stock are disposed of, the “Number of new shares issued”, “Amount to be paid in per share” and “Market price per share before issuance of new shares” shall be read as the “Number of treasury shares disposed of”, “Disposal amount per share ” and “Market price per share before disposal,” respectively.

Furthermore, if the Company has, subsequent to the allotment date of the Stock Acquisition Rights, carried out a merger with another company, or a company split, or otherwise needs to adjust the Exercise Price in a manner similar to these, the Company may appropriately adjust the Exercise Price to the extent deemed reasonable.

(3) Period during which Stock Acquisition Rights may be exercised

The period during which the Stock Acquisition Rights may be exercised (the

“Exercise Period”) shall be from July 1, 2024 to June 30, 2029. However, if the final day of the Exercise Period is a Company holiday, the preceding business day shall be the final day.

(4) Matters concerning increases in stated capital and legal capital surplus

1) In the event of shares being issued upon exercise of the Stock Acquisition Rights, an increase in the amount of stated capital shall be one-half of the maximum amount of increase in capital, etc., calculated in accordance with Paragraph 1, Article 17 of the Ordinance on Accounting of Companies. Any fraction less than one yen resulting from the calculation shall be rounded up to the nearest yen.

2) In the event of shares being issued upon exercise of the Stock Acquisition Rights, an increase in the amount of legal capital surplus shall be the amount obtained by subtracting the increase in capital in the above 1) from the maximum amount of increase in capital, etc. stated in the above 1).

(5) Restriction on acquisition of Stock Acquisition Rights through transfer

Acquiring the Stock Acquisition Rights through transfer shall require approval through a resolution by the Company’s Board of Directors.

(6) Conditions for exercising Stock Acquisition Rights

1) If the amount of the adjusted operating income in the fiscal year ending March 2024 has exceeded each of the levels stated in (a) to (c) below, a stock acquisition right holder may exercise the number of the Stock Acquisition Rights equivalent to each predetermined rate of the Stock Acquisition Rights allotted to each holder (the “Exercisable Rate”).

(a) When the adjusted operating income has exceeded 7,390 million yen, the Exercisable Rate shall be 10%

(b) When the adjusted operating income has exceeded 8,444 million yen, the Exercisable Rate shall be 70%

(c) When the adjusted operating income has exceeded 9,594 million yen, the Exercisable Rate shall be 100%

In determining the values of the adjusted operating income above, the amount calculated below shall be used as a reference value. It is the amount obtained by adding stock-based compensation expenses in the notes to the consolidated financial statements in the Company’s annual securities report for the relevant fiscal year, to operating income of the consolidated statement of income in the said report. In case where any indicator used as a reference value should be changed or modified due to the change in the accounting standards and other reasons, the Company shall separately establish an applicable indicator as a reference value through a resolution

at a Board of Directors' meeting. In case where there is a fractional number of less than one in the exercisable Stock Acquisition Rights, the number shall be truncated.

2) A Stock Acquisition Rights holder does not need to be a director or an employee of the Company at the time of exercise of the Stock Acquisition Rights. Except when the Board of Directors of the Company separately approves, a Stock Acquisition Rights holder may not exercise the Stock Acquisition Rights in cases where the holder is removed from his/her position or receives disciplinary dismissal, or when there is a case that falls upon any of the items stipulated in the agreement on allotment of the Stock Acquisition Rights that the exercise of the Stock Acquisition Rights shall not be appropriate.

3) Heirs of a stock acquisition right holder may not exercise the Stock Acquisition Rights.

4) In the event that the exercise of Stock Acquisition Rights causes the number of outstanding shares of the Company to exceed its total number of authorized shares, said Stock Acquisition Rights may not be exercised.

5) Stock Acquisition Rights constituting less than one unit may not be exercised.

4. Date of the allotment of Stock Acquisition Rights

July 28, 2021

5. Matters concerning acquisition of Stock Acquisition Rights

(1) In the event that the Company's General Meeting of Shareholders has approved (or, that the Company's Board of Directors has resolved to approve, due to no approval required from the General Meeting of Shareholders) a merger agreement under which the Company will be extinguished, a split agreement or plan under which the Company will be split, or a share exchange agreement or share transfer plan under which the Company will become a wholly-owned subsidiary, the Company may acquire the entire amount of the Stock Acquisition Rights gratis on or after the date specified separately by its Board of Directors.

(2) In the event that a holder of the Stock Acquisition Rights becomes unable to exercise his/her Stock Acquisition Rights due to 3. (6) above, prior to his/her exercising the right for the Stock Acquisition Rights, the Company may acquire such Stock Acquisition Rights gratis.

6. Treatment of Stock Acquisition Rights upon Corporate Reorganization

In the event that the Company has carried out a merger (limited to a case where the Company will be extinguished as a result of the merger), absorption-type company split, incorporation-type company split, share exchange, or share transfer

(collectively, the "Corporate Reorganization"), Stock Acquisition Rights of the company that falls under any of sub-items (a) to (e) in Item 8, Paragraph 1, Article 236 of the Companies Act (the "Surviving Company") shall be delivered to a holder of the remaining Stock Acquisition Rights on the date when the Corporate Reorganization comes into effect (the "Remaining Stock Acquisition Rights"), in accordance with the terms and conditions set out below, provided, however, that the foregoing shall apply only to cases where the delivery of the Surviving Company's Stock Acquisition Rights, in accordance with the terms and conditions set out below, has been stipulated in the absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement, or share transfer plan, and in that case the Remaining Stock Acquisition Rights shall be extinguished and the Surviving Company shall issue new Stock Acquisition Rights.

- (1) Number of Stock Acquisition Rights of the Surviving Company to be delivered**
Said number shall be the same as the number of the Stock Acquisition Rights owned by each holder of the Stock Acquisition Rights.
- (2) Class of shares of the Surviving Company underlying Stock Acquisition Rights**
Such shares shall be the Surviving Company's common stock.
- (3) Number of shares of the Surviving Company underlying Stock Acquisition Rights**
The number shall be determined in accordance with 3. (1) above, taking into account the terms and conditions of the Corporate Reorganization, etc.
- (4) Value of property to be contributed upon exercise of Stock Acquisition Rights**
The value of property to be contributed upon exercise of each stock acquisition right to be delivered shall be determined by multiplying the number of shares of the Surviving Company underlying the said Stock Acquisition Rights to be calculated according to 6. (3) above by the post-corporate reorganization Exercise Price obtained through the adjustment of the Exercise Price in accordance with 3. (2) above, taking into account the terms and conditions of the Corporate Reorganization, etc.
- (5) Period during which Stock Acquisition Rights may be exercised**
The period shall commence either on the first day of the Exercise Period of the Remaining Stock Acquisition Rights stipulated in 3. (3) above or on the day on which the Corporate Reorganization comes into effect, whichever comes later, and shall end on the last day of the Exercise Period of the Remaining Stock Acquisition Rights stipulated in 3. (3) above.
- (6) Matters concerning increases in stated capital and legal capital surplus in the event of shares being issued upon exercise of Stock Acquisition Rights**

These shall be determined in accordance with 3. (4) above.

- (7) Restriction on acquisition of Stock Acquisition Rights through transfer**
Restriction on acquisition through transfer shall require approval through a resolution of the Board of Directors of the Surviving Company.
- (8) Other conditions for exercising Stock Acquisition Rights**
These shall be determined in accordance with 3. (6) above.
- (9) Grounds and conditions for acquisition of Stock Acquisition Rights**
These shall be determined in accordance with 5 above.
- (10) Other terms and conditions shall be determined in accordance with the terms and conditions applied in the Surviving Company.**

7. Matters concerning certificates of Stock Acquisition Rights

The Company shall not issue certificates of the Stock Acquisition Rights.

8. Date of the payment of money in exchange for Stock Acquisition Rights

August 26, 2021

9. Deadline for the application for Stock Acquisition Rights

July 21, 2021

10. Allottees of Stock Acquisition Rights and number thereof, and number of Stock Acquisition Rights to be allotted

Directors and employees of the Company, totaling 28 persons, and a total of 1,830 Stock Acquisition Rights.

The number of the allottees above is a planned one and there may be an increase or a decrease therein. The number of the Stock Acquisition Rights above is a maximum number of issuance and there may be a decrease depending on the number of subscriptions and other factors.