Financial Results Material for FY23/12 Q1

ACSL Ltd (TYO: 6232)
May 12, 2023

Company outline

Company outline

Corporate Name	ACSL Ltd.
Representative	Satoshi Washiya (CEO and Representative Director)
Established	November 2013
Location	3-6-4 Rinkai-cho, Edogawa-ku, Tokyo Hulic Kasai Rinkai Bldg. 2F
No. of Employee	78 (as of Mar 2023)
Description of Business	Manufacture and sale of commercial drones and provision of solution services for unmanned and IoT applications using autonomous control technology.

At a glance[1]

Ratio of engineers

Approx. **59**%

# of foreigners

Approx. **19**

ISO

2

ISO9001 (Quality Management)
ISO27001 (Security)

Client

208

companies

1: Percentage of engineers and number of foreign employees are as of March 31, 2023. The number of customers is the total number of customers from FY19/03 to FY23/12 1Q.

1. Mission / Market / Growth strategy

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MISSION

Liberate Humanity Through Technology

VISION

Revolutionizing Social Infrastructure By Pursuing Cutting-Edge Robotics Technology

Issues that social infrastructure is facing today

Issue

Social infrastructure is not sustainable

Lack of workforce

Decreasing workforce willing to work in tough, dirty, dangerous tasks driven by low birth rate

Aging population

Transition of know-hows from experts have not progressed, and accidents still continue

Rapid increase of workload

Aging infrastructure increasing and EC drives # of packages, resulting in increasing workload

Solutions that drones can bring

Free human from time and physical constraints, and Update social infrastructure

Act autonomously

Drone thinks and act on its own using high level control and AI. No need for human intervention

Become “Eye” and “Hand”

Can act as human’s eye and hand using sensors and mechatronics

Move space freely

Drone can fly both indoor and outdoor in any open space

Control remotely

Drone can be controlled remotely using wireless radio, e.g., between Tokyo and Hokkaido

Evolution of drones

Drones that serve social infrastructure will be tailored to meet the requirements of individual applications

Drones will have specific features tailored to each applications

Delivery	Aerial photo	Agriculture	
Want to fly fast, far, and carry heavy weight	Need to have quick maneuver, light and small	Want to fly slow, accurate and spray pesticides	• • •
↓	↓	↓	
Large, solid drone with delivery mechanism	Small, high-camera spec, easy maneuver drone	Large, durable drone with sprays	

Drone market environment

Effectiveness of drones are being recognized. Further discussions taking place around geopolitics, economic security and data sensitivity

01

Economic Security Data sensitivity

Initiatives related to economic security and data sensitivity taken place at a national scale in the US, India, AU and Japan

02

Unmanned Optimization, DX

Drones and robotics being implemented as unmanned and efficient operations are in demand. Japan promoting Digital Rural City concept.

03

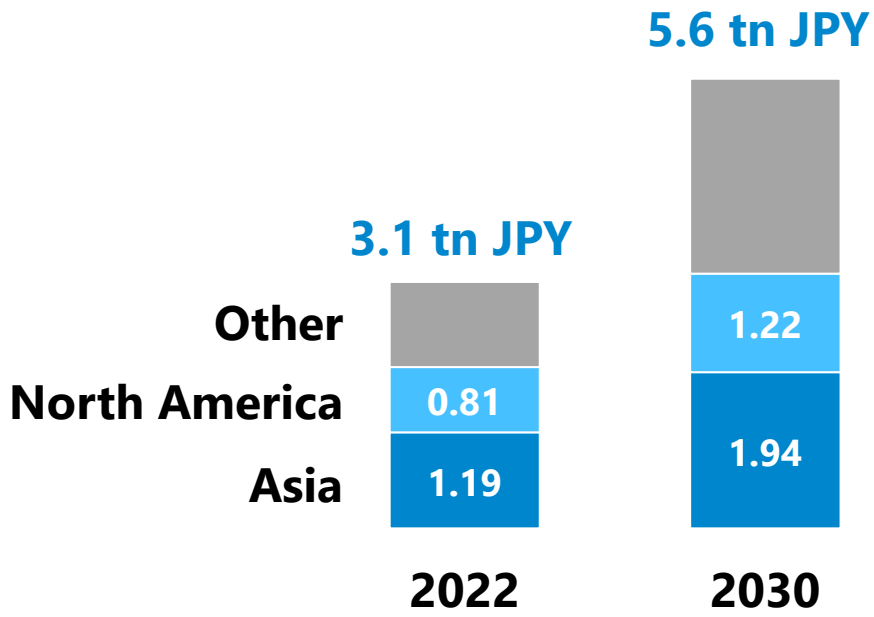
Decarbonization EV

Drones recognized as a tool for decarbonation and EV. Drones are considered to work together with trucks in logistics field

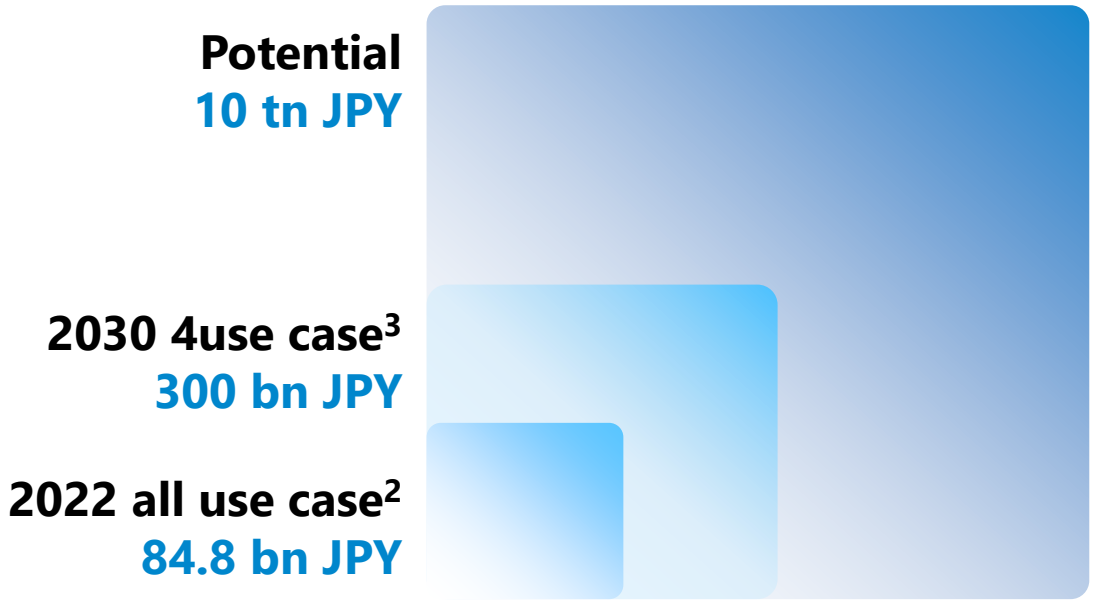
Drone market size

Drone market expected to reach more than 5 tn JPY in 2030

Global drone market[1]



Japan drone hardware market



1 Drone Industry Insights (Calculated at 100JPY/USD)
2 Impress Research Institute (Drone Business Report 2023)
3 Company estimate based on assumptions to number of assets, total service values, service frequency, drone unit sales on the following information
Ministry of Land, Infrastructure, Transport and Tourism, "Trends Surrounding Logistics"
Ministry of Land, Infrastructure, Transport and Tourism, "Conditions Surrounding Infrastructure Maintenance"
Cabinet Secretariat, "Estimation of the size of the private sector market for national land fortification"

Who we are

A global manufacturer that update social infrastructure through realization of autonomous control technology and co-existence of robotics and humans

Overall strategy

Identify applications to focus on through Proof-of-Concept trials, and then develop and manufacturer application-specific drones

Client pain points

Don't know if drones are useful for operations

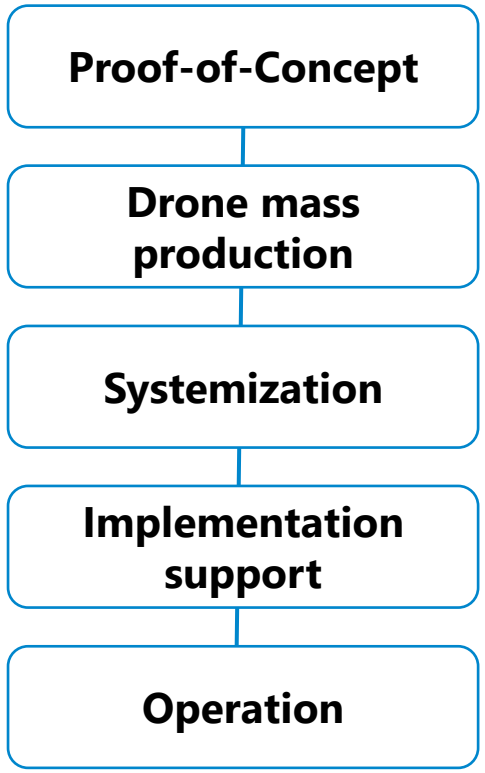
Need high quality drones durable enough for business operations

Want to link with internal system and big data analytics

Need operational manual and pilot training

Want to outsource everything

ACSL Business



1. Solution development

Conduct trial to identify how effective drones can support current operations (PoC) and sell evaluation custom drones. **Identify key marketable application to focus.**

2. Sales of application-specific drones

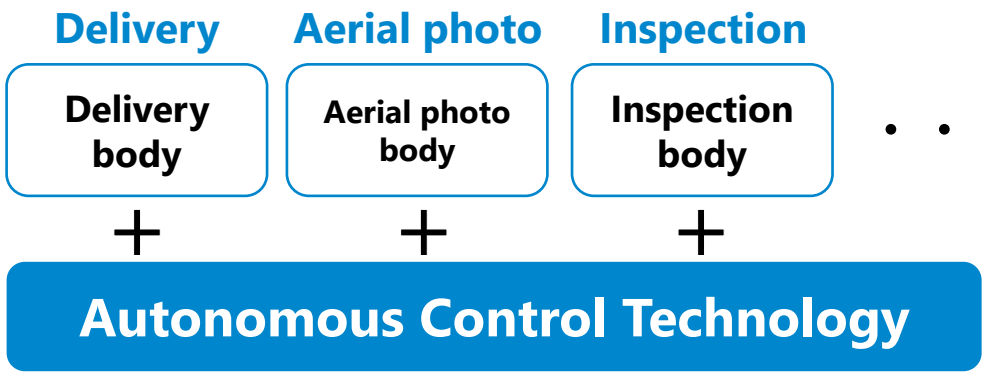
Develop, manufacture and sell **mass production model of applications identified** as marketable based on PoC

ACSL Business

Leverage core autonomous control system to customize and conduct trial based on customer demand. Mass produce those that are identified as marketable

Solution development

ACSL develops proprietary autonomous control system, which can be customized based on customer demand



Sales of application-specific drones

Develop, manufacture and sell mass production model of applications identified as marketable based on PoC

Application-specific drones already in mass production phase

Product launch for 4 applications completed in Japan. Next is launching overseas

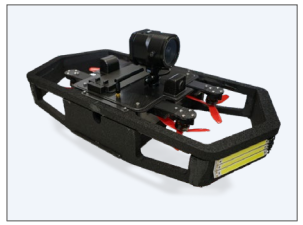
Product life cycle

Illustrative of Sales Transition

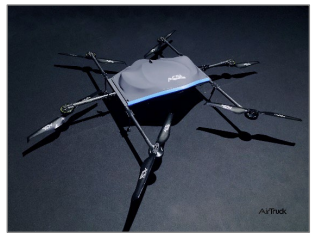
Delivery drone Lv4
(JP co-dev)
Scheduled for FY2023

Smokestack
Jul 2022

Fi4
(Pipe inspection)
Jun 2021



AirTruck
(Delivery)
Mar 2022



SOTEN
(Aerial photo)
Dec 2021

Development
(Upfront investment)

Launch
(Response to initial market reaction)

Growth

Mature

Decline

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FY23/12 Q1 results highlights

Overall

Japan purchase order on track. 30mn USD project MOU signed for FY23 and FY24

Semicon procurement and FX issue resolved resulting in improved profits

Sales

429 mn JPY

YoY -55% (-522 mn JPY)

Outlook for full year on track. 681 mn JPY incl. backlogs

Gross profit rate

15% (62 mn JPY)

YoY +1pt

Impact of semicon procurement and FX resolved. Product marginal profit rate improved

Operating income

-356 mn JPY

YoY +44 mn JPY

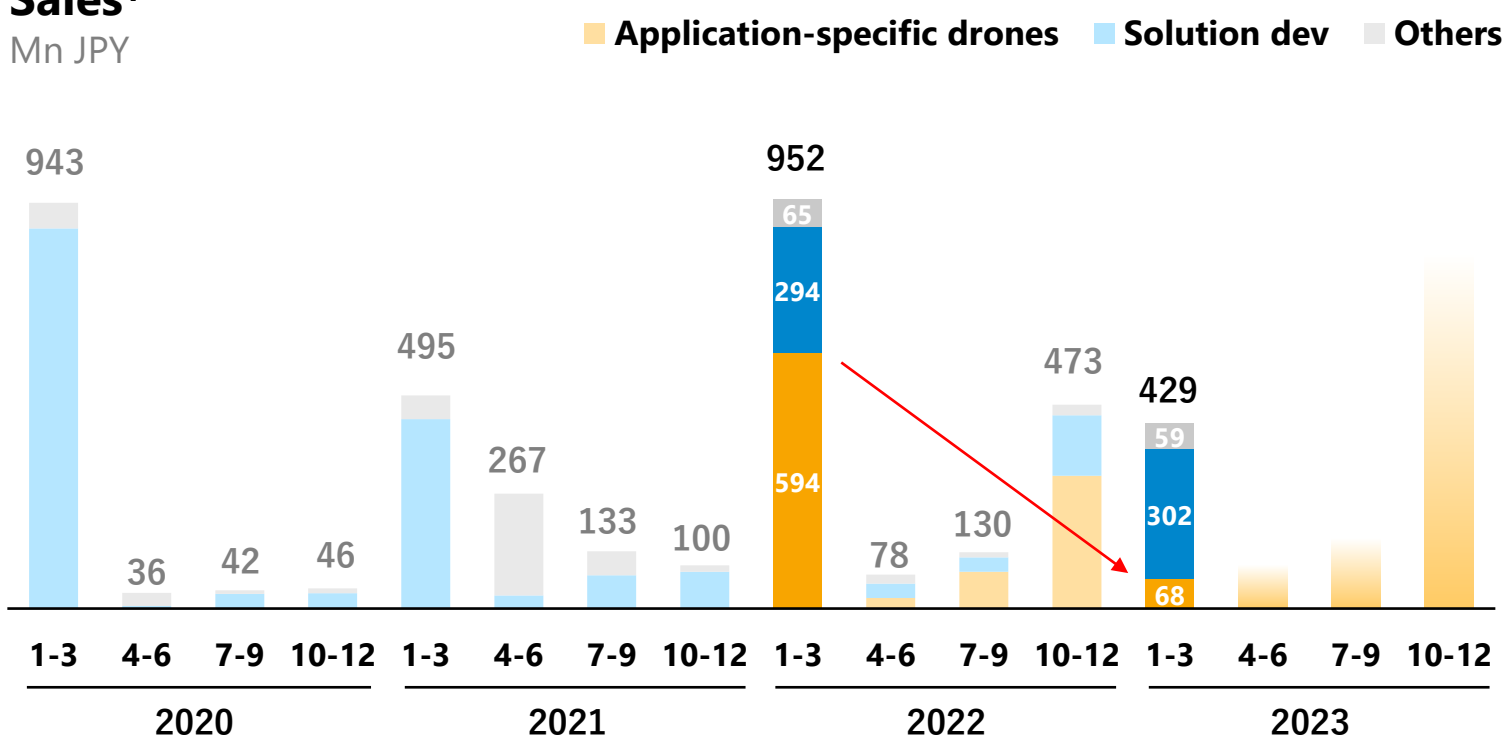
Though lower revenue, operating profit improved by 44mn JPY YoY.

Quarterly sales transition and backlogs

Delayed backlogs for government procurement of application-specific drones, resulting in YoY of -55%

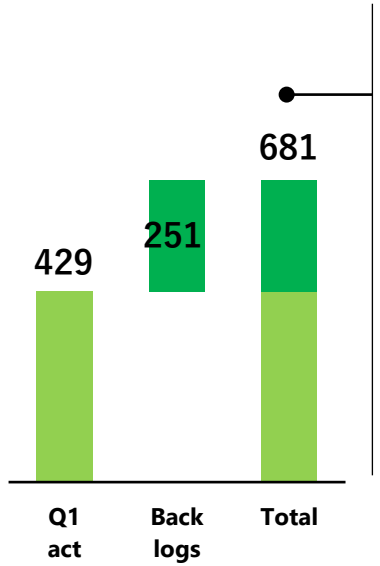
Sales[1]

Mn JPY



Mar. end sales and backlogs[2]

Mn JPY



Order backlogs for Q2 onward on track

Outlook for large projects from government and private sector positive for the second half of the year

1: The fiscal year ended March 31, 2021, and the following fiscal year ended December 31 2021 is a 9-month irregular accounting period from
2: Order backlogs is the total value of projects with a purchase order or similar documents at the end of Mar 2023

Signed project MOU worth 30mn USD in FY23/24 with Indian partner

MOU on drones and robotics projects worth 30mn USD across FY23 and FY24 signed

Background

- ACSL and Aeroarc work closely together to establish JV in India
- Demand for drones and robotics in India is rapidly increasing
- Large projects expected from FY23 to FY24, and Aeroarc has already received some orders

Content of MOU

- Partnering with Aeroarc in the areas of disaster relief, infrastructure inspection, construction, and logistics
- Currently, the project is expected to be worth 30 mn USD (4.05 bn JPY)[1]
- ACSL provides drones, technology and component parts

Impact on financials

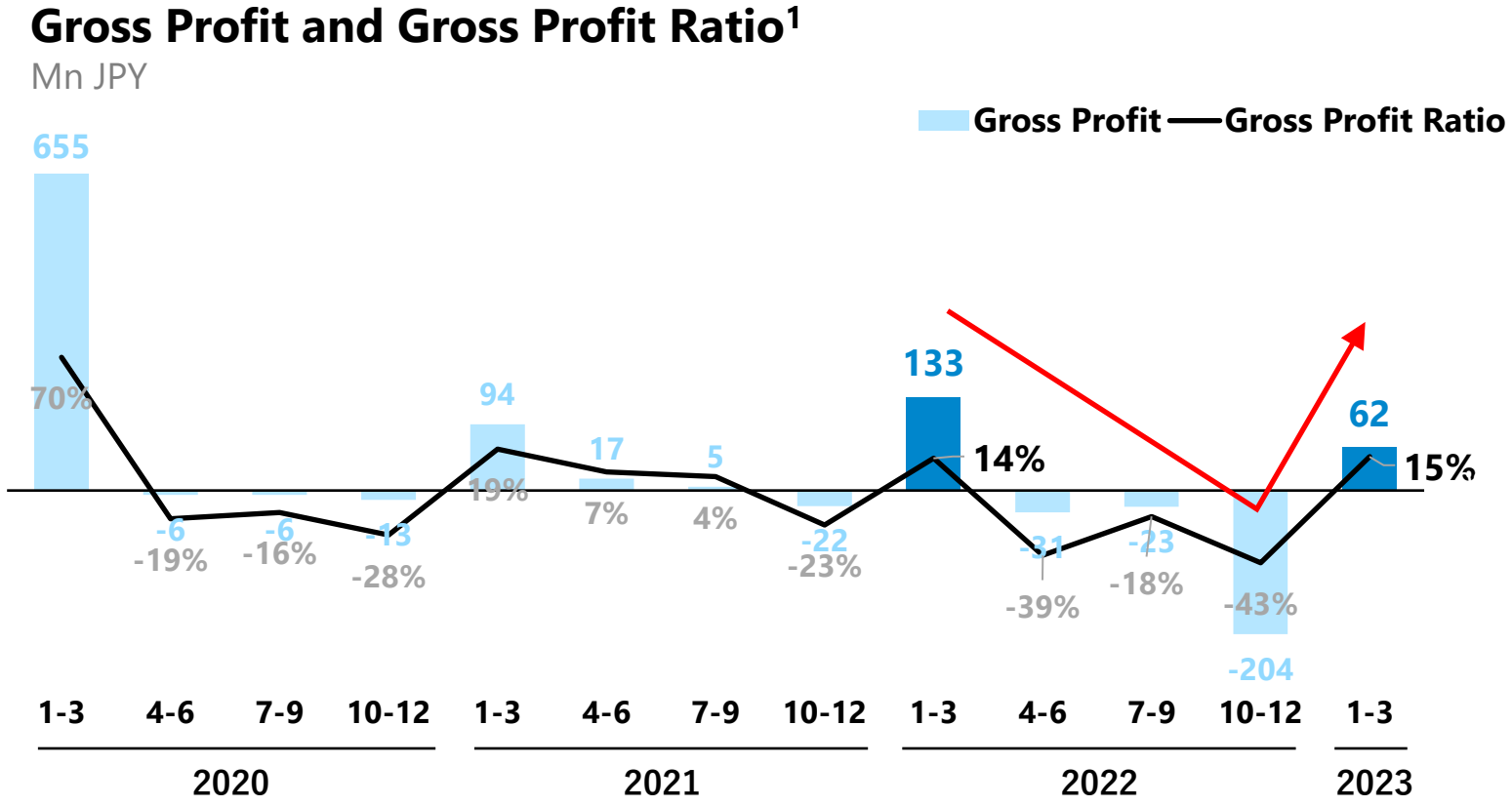
- Overseas sales are not disclosed because it is difficult to calculate appropriate and reasonable figures at this time.
- To be disclosed as soon as the company receives orders for projects based on the memorandum of understanding.

1: Calculated based on 1 USD＝135 JPY

Gross Profit and Gross Profit Ratio

Gross profit rate improved due to the elimination of the one-time factors that caused the decline in FY22/12.

Gross Profit and Gross Profit Ratio[1]



- Loss of 660 mn JPY due to one-time factors such as soaring semiconductor prices, foreign exchange rates and inventory write-downs in the previous fiscal year.
- In this fiscal year, design changes to replace expensive components will be implemented to eliminate the impact.

セグメント別の限界利益率[1]

Both SOTEN and Solutions dev achieved higher profit ratio than previous year

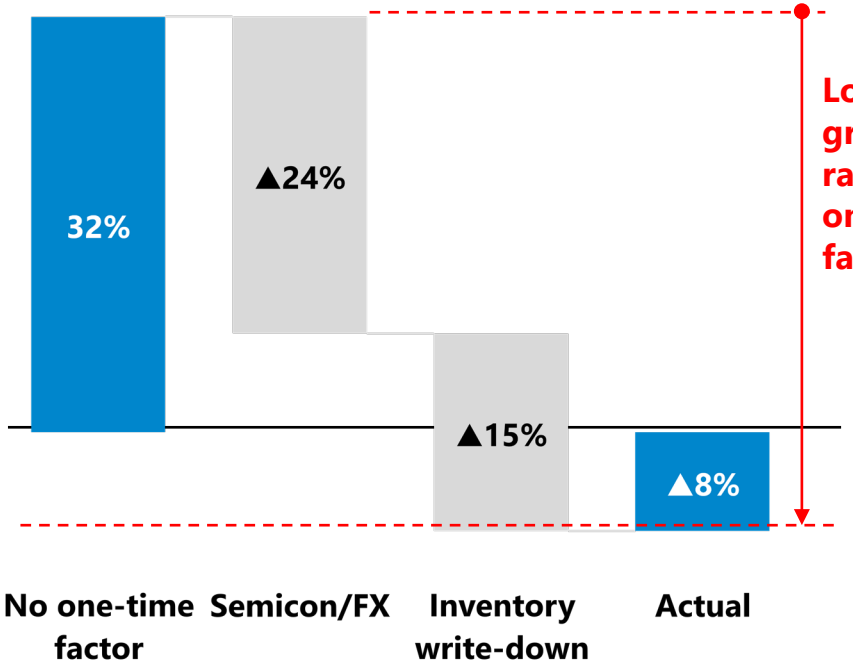
		FY22/12 full year	FY23/Q1 actual
SOTEN (Aerial photography)	Sales (100mn JPY)	9.3	0.3
	# of drones (units)	645	13
	Marginal profit ratio (%)	20	49
Solution Development (Proof-of-concepts trials, sales of prototype drone)	Sales (100mn JPY)	5.0	3.0
	Marginal profit ratio (%)	54	67

1: Marginal profit by product is defined as net sales minus variable costs; for SOTEN and drone sales, it is defined as net sales minus material costs; and for proof-of-concept trials, it is defined as profit minus direct subcontracting costs. Gross profit is defined as marginal profit minus labor and manufacturing costs.

Reference: One-time gross profit factors and outlook for this year

FY22/12 lost 660 mn JPY due to semicon and FX. This year impact is controlled

FY22/12 Gross profit ratio[1]

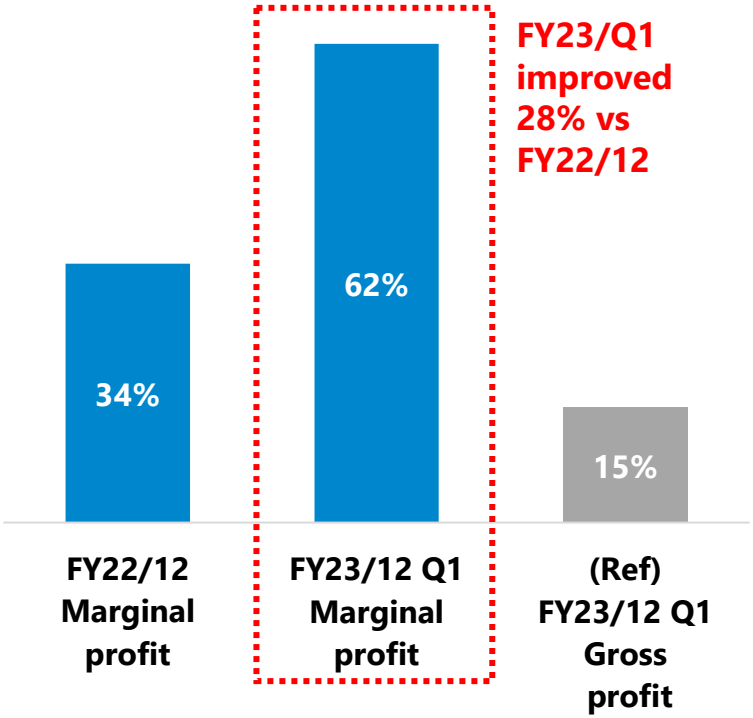


Semicon / FX
Lack of semicon and price hikes resulted in unstable procurement and could not be passed onto end price. In addition, weak yen resulted in loss of 400 mn JPY gross profit

Design changes already completed to control impact of semicon

Inventory write-down
Write-down of 260 mn JPY inventory of SOTEN with high semicon. No write-down expected this year

Marginal profit ratio comparison



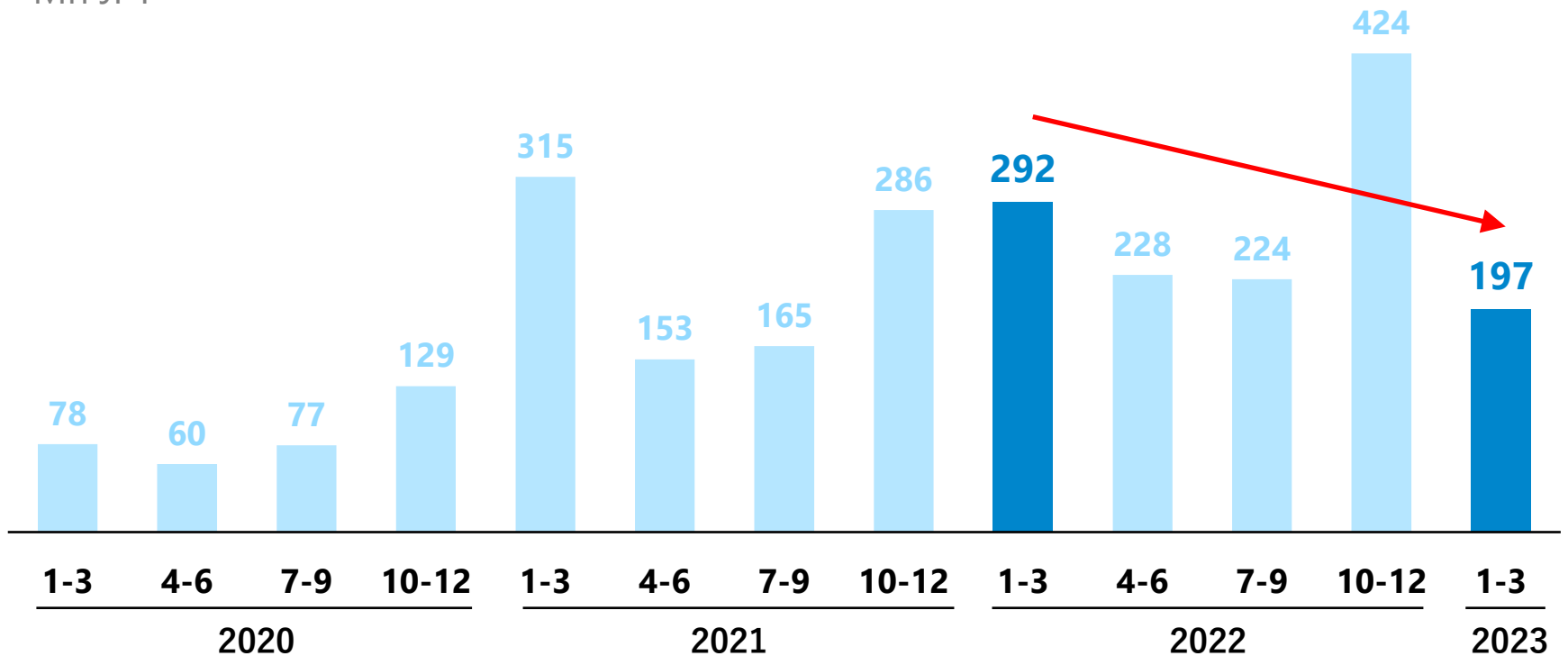
1: In the gross profit results for FY22/12, the total of approximately 660 mn JPY from the effects of semicon price hikes, foreign exchange rates, and inventory write-downs is defined as a one-time factor. Approximately 660 mn JPY of the 1.63 bn JPY (40%) in net sales is a one-time factor.
2: Marginal profit is defined as net sales minus variable costs; in the case of SOTEN, drone sales, it is defined as net sales minus material costs, and in the case of demonstration experiments, it is defined as profit minus direct subcontracting costs. Gross profit is defined as marginal profit less labor and manufacturing costs. The difference between marginal profit margin and gross profit margin is mainly affected by labor and manufacturing costs.

R&D expense

R&D expense curbed as major investment already completed last year

R&D expense[1]

Mn JPY



1: Fiscal year ending in March until FY21/3. FY21/12 is irregular with 9 months between 21/04~21/12. FY22 onward is fiscal year ending December

Achieved Japan's first Level 4 flight as one of R&D results

- On March 13, 2023, PF2-CAT3 received Type 1 Certification (PF2-CAT3) for the first time in Japan from the Ministry of Land, Infrastructure, Transport and Tourism
- On March 24, 2023, PF2-CAT3 was provided for "drone delivery" conducted by Japan Post in the Okutama Post Office delivery area.
- Successfully transported a 1.0 kg package in approximately 9 minutes (40% improvement) over a total flight distance of 4.5 km

PF2-CAT3

Parachute

First level 4 flight on Mar 24, 2023

FY23/12 Q1 results and outlook for FY23/12

Business progress solid. Overall cost structure improved.

[Mn JPY]	FY23/12 Q1 actual	FY22/12 Full year	Results of same period last year	YoY compari-son	Summary
Net sales	429	1,635	952	▲522	■ Decrease in YoY comparison as last year had an irregular first shipment of SOTEN (590 mn JPY) ■ Solutions and other businesses remained strong
Gross profit	62	▲124	133	▲71	■ Significant improvement compared to the previous year
Gross profit ratio	15%	▲8%	14%	＋1pt	■ Marginal profit ratio improved mainly in SOTEN, as semicon negative impact resolved
R&D expense	197	1,168	292	▲95	■ After completing Level 4, which requires heavy investment, R&D in Q1 curbed to a certain level ■ Plans to invest flexibly in overseas expansion
Operating income	▲356	▲2,203	▲401	＋44	■ Operating loss improved YoY despite lower sales
Net income	▲425	▲2,593	▲370	▲54	■ Non-operating expenses were recorded for fundraising costs

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Reinforcement of governance through changes to the board

Transitioned to a company with an audit committee system to strengthen diversity and governance

Board of Directors

Director (internal)

CEO
Satoshi Washiya

CFO
Kensuke Hayakawa

Director (External)

Eternal Board
Masanori Sugiyama

External Board
Tadaharu Shimazu

Audit Committee

External Board	External Board	External Board
Kentaro Shizuka	Kaori Nejihashi	Ayumi Daimon

External board ratio
71 % (5ppl)

Female rate
29 % (2ppl)

Setting up Global CTO

Global CTO
Board of ACSL Inc. (US)
Dr. Chris Raabe

- Establishment of Subsidiary ACSL Inc. for Full-Scale Expansion into the U.S.
- Chris Raabe stationed in the U.S. to promote the launch of overseas markets
- As global CTO, leads technology needs in Japan, Asia, and North America

Exhibited drone at the exhibition of G7 related meeting in April, 2023.

Exhibit at G7 Nagano Minister of Foreign Affairs Meeting in Karuizawa, Nagano, and at the G7 Gunma Takasaki Ministerial Conference on Digital Technology

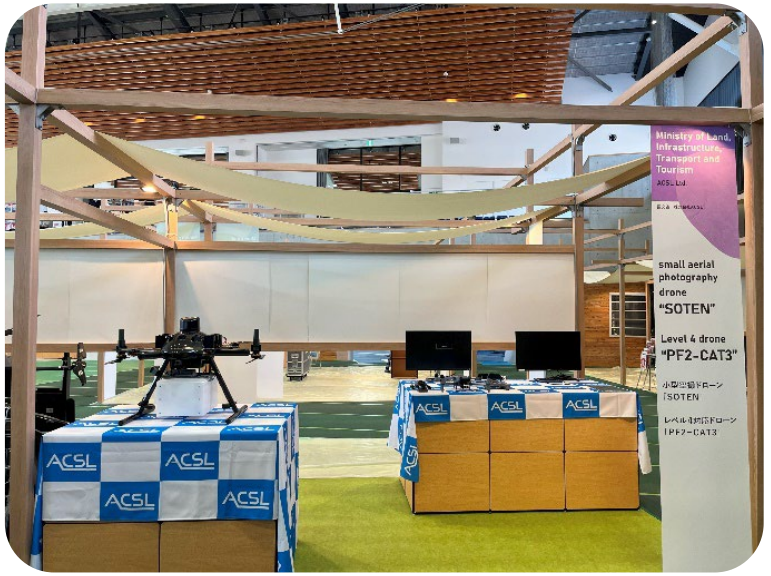
G7 Nagano Minister of Foreign Affairs Meeting in Karuizawa, Nagano

“PF2-CAT3", which received Type 1 Certificate, and "SOTEN" exhibited under the theme of contributing to the resolution of various issues facing the international community.

G7 Gunma Takasaki Ministerial Conference on Digital Technology

With the aim of promoting Japan's advanced technologies, to the G7 countries and promoting future international expansion and international collaboration, ACSL exhibited in the field of "Innovation

Visit by Minister for Digital Taro Kono



View of the ACSL booth

Established subsidiary in California for full-scale entry into the U.S.

Full-scale expansion into the U.S. for switching from Chinese drones for government agencies and social infrastructure companies in the U.S.

Establishment of US subsidiary

- ACSL, Inc. is established in California to expand its business in the U.S.
- Cynthia Huang was appointed CEO of ACSL, Inc. Most recently, Ms. Huang has worked for Auterion, a leading U.S. drone software developer, and DJI, a Chinese drone manufacturer, and has demonstrated significant success in the North American corporate drone market.
- The release of ACSL's full-scale entry into the U.S. market was covered by numerous media outlets, including TechCrunch[1]

Lecture at trade shows in the U.S.

- Cynthia and Chris, members of the ACSL Inc. management team, participated in a lecture and panel discussion at AUVSI XPONENTIAL 2023, one of the largest drone exhibitions in the U.S.
- Japanese companies' entry into the U.S. market drew a great response and demonstrated the high profile of ACSL entry

1: Japan's biggest drone maker sets its sights on the US (TechCrunch, May 4, 2023)

Conduct first role as consultive member of the Universal Postal Union

Hosted a reception for UPU Governing Council, composed of 41 member states

Universal Postal Union (UPU)

A specialized agency of the United Nations with 192 member countries whose purpose is to promote communications through effective operation of postal services and to contribute to international cooperation in the cultural, social and economic fields.

Cooperation with postal operators in each country

With the support of UPU, study the possibility of drone logistics support, especially in countries with social needs in the Asia-Pacific region

Started discussions with Tonga and Fiji, aiming to realize a concrete project demonstration this fiscal year

Metoki Director General (Left)、Osvald Deputy Director General (Right) Global CTO Chris Raabe (middle)

Meetings with postal operators in various countries

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Mid-term financial goal

Accelerate sales growth and achieve 10 Bn JPY sales and 1 Bn JPY profit in 2025

	Previous year	ACSL Accelerate FY22	Master plan
	2022	2025	2030
Net sales	1.63 Bn JPY	10 Bn JPY	100 Bn JPY
Operating profit	▲2.2 Bn JPY	1 Bn JPY	10 Bn JPY

ACSL Accelerate FY22 Business Strategy and Goals

5 pillars for growth in this mid-term plan to realize a sustainable business with global footprints.

ACSL Accelerate FY22

Shift to a sustainable global manufacturer

- Development and commercialization of four application-specific drones
- Development of new application drones and compliance with security
- Full-scale launch into the Indian market
- Reinforce ESG initiatives
- Exploring potential adaptation of autonomous control systems to other fields

FY23 Strategic Policy

Full-scale overseas expansion

FY23 focusing on “Steady Japan growth” and “Rapid overseas growth”

Launching product in US, Asia and India to increase shipment volume

Steady Japan growth

- Quickly reflect market feedback to the four application-specific drones already launched and move products to growth phase
- Focus on improving gross profit by improving procurement
- Focus on small-scale, effective development instead of large R&D investments

Rapid overseas growth

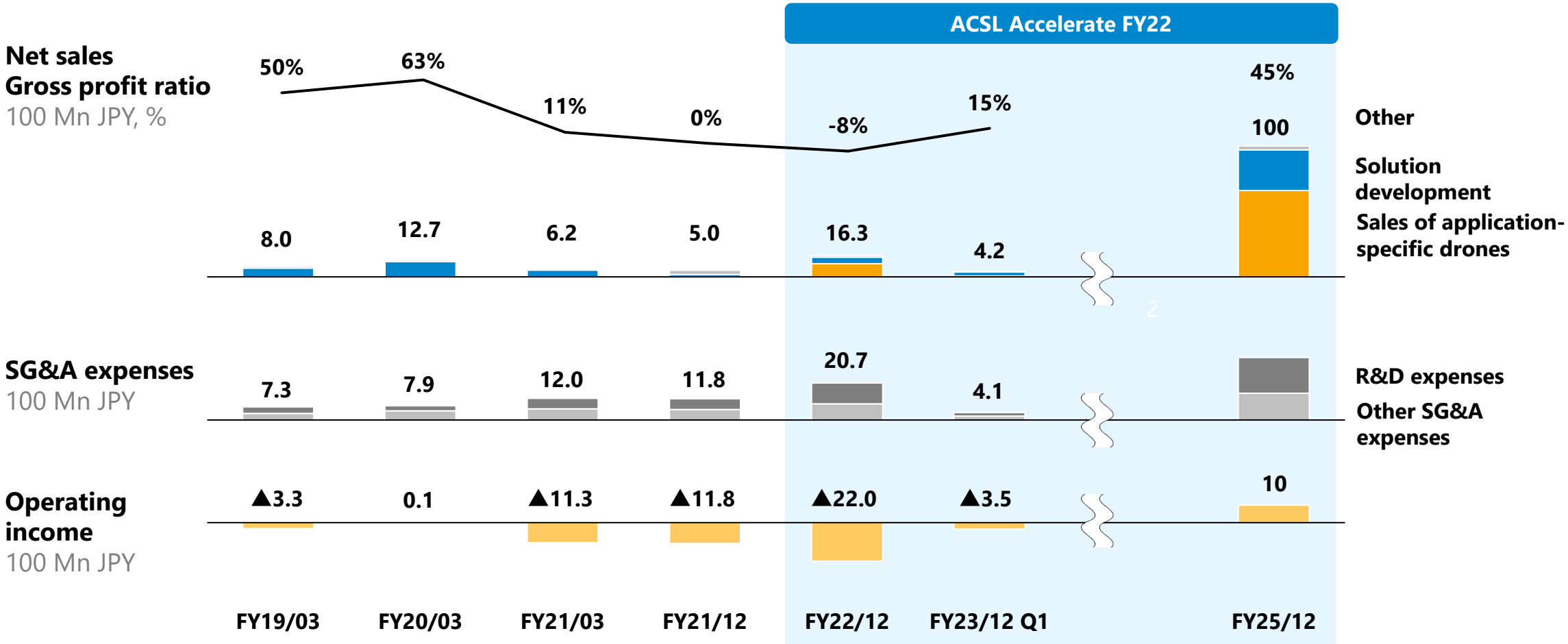
- Obtain export licenses and comply with local regulations for mass-produced drones to meet economic security needs and re-launch in North America, Asia, and India
- Focus on marketing and public relations to improve global prescience

Performance targets

- Japan net sales equal to or greater than the net sales of 1,635 mn JPY in FY22/12
- Though overseas sales for FY23/24 has 4 bn JPY MOU signed, it is difficult to calculate appropriate and reasonable figures at this point, and hence specific forecasts are not disclosed.

Sales and gross profit that ACSL targets by FY25

By FY25/12, achieve 45% gross profit rate incl. improvement in semicon and FX



Aiming for net sales of 100 Bn JPY in 2030

Achieve 33% market share in 2030 and realize 100 Bn JPY in 4 applications

Drone hardware market

Potential market size 10 Tn JPY

In 2030 4 Appli-cations

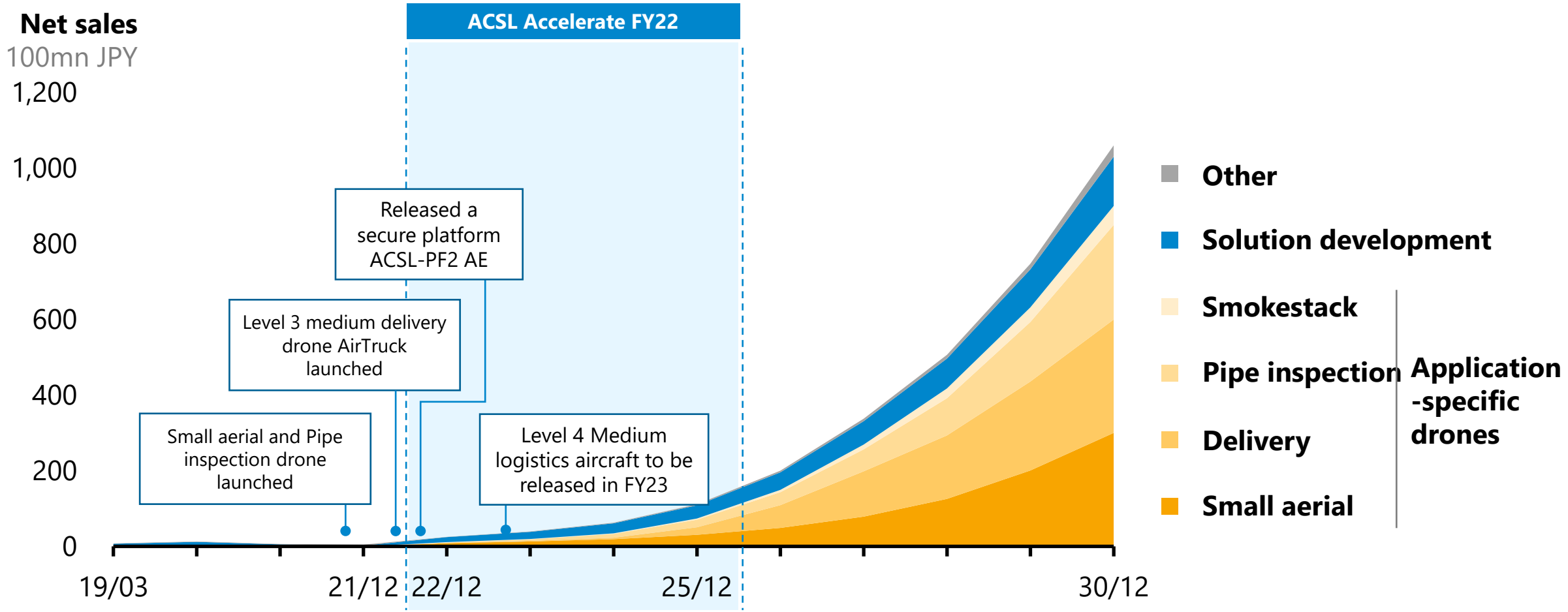
	Market size 300 Bn JPY[1]	Market take-off	Competitive situation	Customer segmentation	Target share
Aerial photo	120 bn JPY	**Existing**	Currently, many products are made in China and have been adopted	**Large**	**25%**
Delivery	75 bn JPY	**2025~**	ACSL products used mainly for difficult Level 3 flights	**Small**	**50%**
Pipes	60 bn JPY	**2023~**	Currently no products dedicated to pipes	**Mid**	**50%**
Smoke stacks	45 bn JPY	**2023~**	No full-scale implementation of a product	**Mid**	**25%**

Share 33% (More than 100 Bn JPY)

1: Estimated by us based on the total number of equipment, facilities, and services for each use, frequency of use, and unit cost of aircraft.

Rapid revenue growth achieved by shifting to drone sales

Early growth led by SOTEN and Fi4. Delivery will start growing from 2025



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FAQs 1/3

Item	Question	Answer
Macro	Will the expected global expansion of military and defense demand have an impact on the Company?	We recognize that the market for attack drones for military use is different from that for industrial drones, and there is no direct impact on the Company. It is our policy not to develop or provide technology for drones used for offensive purposes. On the other hand, it is expected that drones used for defense purposes such as reconnaissance and patrol will either be produced domestically or procured from allied countries.
Macro	Will semiconductor shortage continue to have impact this year?	The shortage of semiconductors and price hikes continued through 2022, and gross profit was negatively affected by about 600 mn JPY in 2022. As a result of design modifications that take procurement stability into consideration, a certain degree of cost reduction is expected from 2023, and a recovery in marginal profit margin is anticipated. Since some procurement was already completed in the previous fiscal year, the effect of the recovery is expected to be reflected gradually over the course of 2023.
Outlook	What is the outlook for sales in FY23/12?	For the current fiscal year, we expect domestic sales to be at least the same level as in FY 22/12. Overseas, we have already concluded an MOU worth 4 bn JPY for FY23/24, but since it is difficult to calculate appropriate and reasonable figures at this point, we are not disclosing specific performance forecasts.
Outlook	What is the outlook for profit performance in the current fiscal year?	By responding to the impact of semiconductors, the marginal profit margin is expected to improve, and gross profit is expected to recover from last year. The company will continue to invest aggressively in the development of new products, such as next-generation delivery drone, and will also invest flexibly in overseas expansion in response to market opportunities. At this time, we are not disclosing a consolidated earnings forecast for the full year.
Overseas	Specific sales target amount and timing for overseas expansion?	India has received an order for a project worth 80 mn rupees, which is expected to involve the sale of general-purpose equipment. In addition, the following MOU projects are being materialized. p15 order backlog of 250 mn JPY includes the 80 mn rupee project and does not include the MOU project. Order backlog of 250 mn JPY on p15 includes the 80 mn rupee project and does not include the MOU project. The U.S. is currently setting up a subsidiary and aiming to sell SOTEN. Specific figures will be disclosed at a fixed time.
Overseas	What is the content of the MOU with Indian partner?	ACSL will collaborate with Aeroarc on project size of 30mn USD. ACSL will provide drones, technology and component parts to Aeroarc. ACSL plans to disclose specific projects as and when they are awarded.

FAQs 2/3

Item	Question	Answer
Application-specific	Progress on application-specifics other than SOTEN?	While pipe inspections has been slower to deploy than expected, the delivery drone (AirTruck) has been adopted by a number of Digital Rural City Initiative-related projects across the country. Co-developed drone with Japan Post targeted for launch within FY23
Financial affairs	What is ACSL perspective on mid-term goal?	The company continues to aim for sales of 10 bn JPY and operating profit of 1 bn JPY in 2025. 10 bn JPY was assumed to be achieved only in the domestic market in 2022, but at present the company is aiming for 10 bn JPY in sales, including a portion of sales contribution from overseas markets.
Financial affairs	What is the financing policy?	In February 2023, the company conducted a third-party allotment of 3.56 bn JPY in total with CVI Investment as the allottee. While raising a certain amount at the time of issuance, the company expects to raise funds while reducing the impact of dilution by fixing the number of shares to be issued upon exercise of stock acquisition rights. Plans to invest flexibly in overseas development, etc. in the future.
Competitive environment	Chinese drone manufacturers have a high market share, but how to compete against them?	We recognize that although Chinese manufacturers have a large share of the consumer market, there is no clear dominant player in the industrial drone market. In addition, we have three competitive advantages over Chinese manufacturers: (1) technological standards for industrial drones (autonomous control technology, application-specific drones tailored to each use case, and drone certification), (2) understanding customer operations and building a support system to meet local customer requirements, and (3) providing secure and reliable drone to exclude security concerns.
Competitive environment	The possibility of emergence of competitors as drone manufacturers?	Companies that possess autonomous control system technology at the source code level, especially those that have commercialized the advanced model-based control technology that we employ, are rare worldwide. The development of autonomous control systems for industrial drones requires verification in the field. We have a strong customer base, and we can enhance our competitiveness by promoting development in response to actual demand for each application through dialogue with customers and verification in actual environments.

FAQs 3/3

Item	Question	Answer
Risk	What are the biggest perceived risks?	We recognize that major accidents involving drones, including those involving drone manufacturers other than our company, are a major risk. Stricter laws and regulations on drones due to serious accidents, deterioration of public trust in drones, and other factors are expected to delay the commercialization of drones and delay the introduction of drones by customers, slowing the speed of the ACSL's business development.
Manufacturing System	Is there a potential shortage of manufacturing capacity?	As a fabless manufacturer, we outsource production to an external partner in Japan and can handle increased manufacturing capacity.
Acquisition of human resources	Is there a risk of loss of core personnel such as research personnel?	By requiring only English as a requirement for R&D personnel, ACSL is attracting mainly foreign nationals with cutting-edge technology. The personnel evaluation system is also designed to provide incentives by preparing career tracks not only for management roles but also for expert roles for engineers.
Performance	How seasonality in sales occurs?	For delivery of drones, sales are recorded when all the drones have been delivered and inspected by the client; for trial projects, sales are recorded when the entire project is completed. For large projects, sales are often recorded from January to March, depending on the budget cycle of the client company. On the other hand, sales are usually small from April to June. However, the recent supply side has had an impact on drone sales, and the concentration of sales in the January-March period tends to be less than in the past.

Characteristics of the launched application-specific drones

Developed and launched 4 application-specific drones by the end of 2022

SOTEN
(Aerial photography)

- Secure drones targeting government procurement, etc., in the context of economic security
- Four types of cameras can be hot-swapped, and the drone is wind-resistant, dustproof and waterproof

Fi4
(Pipe inspection)

- Drone capable of flying in pipes such as water and sewage pipes, co-developed with NJS
- Screening surveys can be conducted to narrow down the scope of detailed surveys

Smokestack inspection

- Autonomous flight to capture highly accurate inspection images of smokestacks, boilers, and water control tanks at factories and power plants in dark locations where it is GPS-denied

AirTruck
(Delivery)

- Delivery drone capable of flying 20 km with 5 kg payload
- KDDI SmartDrone and Aeronext form AirTruck Starter Pack to expand nationwide

ACSL competitive environment

Industrial drones need to have a capability and characteristics sufficient to be adopted to specific operations, making general-purpose drones difficult to introduce to industrial operations.

Major drone markets and key models

☐ Drones we deploy

	Personal use (B to C)	Industrial applications (B to B)		
	Aerial photography	**Inspection**	**Delivery**	**Disaster prevention**
General Purpose drones Can be used for general purpose applications	Mainly inexpensive foreign (mainly Chinese) general-purpose drones	 **PF2** Other companies: Mostly foreign (mainly Chinese) general-purpose drones with GPS support	 **PF2** Other companies: Mostly large delivery drones such as foreign-made VTOL drones	 **PF2** Other companies: Mostly foreign-made (mainly Chinese) general-purpose drones
Application-specific drones Flight performance and characteristics optimized for each application	No application-specific drones for personal use	 **Aerial Photography**  **Smokestack Inspection**  **Pipe Inspection** Other companies: Limited drones for each inspection application.	 **Medium Delivery** Other companies: Very limited drones with Level 3 or higher safety performance	 **Aerial Photography** Other companies: Drones with flight performance and safety features that can withstand disaster prevention applications are limited.

Balance Sheet

mn JPY	FY23/12 Q1 Actual	FY23/12 Q1 YoY change to same period previous year	FY22/12 Actual	FY22/12 Q1 Actual
Current assets	4,057	▲7%	3,572	4,343
Cash	1,661	▲26%	1,356	2,246
Fixed assets	1,415	▲15%	1,403	1,655
Current liabilities	1,127	+26%	2,003	892
Fixed liabilities	1,426	+5,267%	34	26
Total liabilities	2,554	+178%	2,037	918
Net assets	2,918	▲43%	2,938	5,080
Total assets	5,472	▲9%	4,976	5,999

KPI Results

	Indicator	FY19/03 Actual	FY20/03 Actual	FY21/03 Actual	FY21/12 (9 months) Actual	FY22/12 Actual	FY23/12 Q1 Actual
Sales of application-specific drones							
Small aerial photography drone (Low ASP)	Units	-	-	-	-	645	13
	Amount (100mn JPY)					9.3	0.3
Other application-specific drone (High ASP)	Units					18	6
	Amount (100mn JPY)					0.7	0.3
Solution development[1]							
PoC and Development	Projects	81	112	82	41	71	28
	Amount (100mn JPY)	2.9	8.6	3.7	1.2	3.9	2.6
Sales of Platform/ Evaluation drone[1]	Units	106	101	46	18	27	7
	Amount (100mn JPY)	3.8	3.0	1.4	0.6	1.0	0.3
Number of shipments[1]		136	128	71	25	42	12

1: The number of Sales of Platform/Evaluation drones represents drone sold in the platform sales (former STEP 3 and 4), and the number of shipments represents the total number of drones shipped including the demonstration experiments (former STEP 1 and 2)

Quarterly Sales Trends

Fiscal Year[1]		FY20/03				FY21/03				FY21/12			FY22/12				FY23/12
Quarterly Results		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	1Q	2Q	3Q	4Q	1Q
Demonstration experiment[2] • Proof of Concept • Custom development	Sales mn JPY	27	65	102	671	1	22	22	323	14	42	67	252	16	25	103	262
	Num. of projects	14	22	21	55	2	11	15	54	6	14	21	34	2	12	23	28
Sales of platform drone[3] • Sales of standard and general-purpose drone • Drone modified for customers based on the standard drone	Sales mn JPY	24	48	19	212	4	10	13	116	15	34	17	42	17	7	37	39
	Num. of units	6	12	9	74	1	3	5	37	6	6	6	8	4	2	13	7
Other[4] • Sales of parts • Fuselage repair service • Some national projects	Sales (of which national projects) mn JPY	9	29 (18)	9	59	30 (21)	8	10	55	237 (219)	55 (50)	15	64	20	11	24	59 (16)

1: FY21/03 fiscal period is from April to March of the following year; FY21/12 is an irregular fiscal period from April to December; FY22/12 fiscal period is from January to December.
2: Solution development (STEP 1 and 2) changed to demonstration testing from FY21/03 1Q.
3: Drone sales (STEP3, 4) changed to platform drone sales from FY21/03 1Q.
4: National projects generally record subsidies received as non-operating income. On the other hand, some projects whose main purpose is to conduct commissioned experiments are recorded as revenues.

Major financial items by quarter

Fiscal Year[1]	FY20/03				FY21/03				FY21/12			FY22/12				FY23/12
Quarterly Results	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	1Q	2Q	3Q	4Q	1Q
Net sales mn JPY	60	143	130	943	36	42	46	495	267	133	100	952	78	130	473	429
Gross profit mn JPY	8	69	75	655	▲6	▲6	▲13	94	17	5	▲22	133	▲30	▲23	▲204	62
Gross profit ratio	14%	48%	58%	70%	▲19%	▲16%	▲28%	19%	7%	4%	▲23%	14%	▲39%	▲18%	▲43%	15%
SG&A expense mn JPY	205	171	201	213	230	173	314	488	325	348	515	535	442	431	670	419
Of which R&D expenses mn JPY	66	54	76	78	60	77	129	315	153	165	285	292	228	224	424	197
R&D Expenses ratio to sales	109%	38%	59%	8%	167%	183%	278%	64%	57%	124%	285%	31%	290%	172%	90%	46%

1: Figures are based on consolidated financial statements from 3Q FY21/3 onward, and figures for earlier quarters are based on non-consolidated financial statements.
FY21/12 is an irregular accounting period from Apr. to Dec. FY22/12 is an irregular accounting period from Jan. to Dec.

Potential Risks and Responses

Item	Major Risks	Our Perceptions and Risk Response Measures
Macro	▪ Shortage of materials procurement against production plan due to semiconductor shortage and price hikes, material cost to sales ratio, and increased development costs ▪ Increase in prices of products procured from overseas due to the weak yen and strong U.S. dollar	▪ The supply-demand balance for semiconductors used for high-power output remains tight, and semiconductor shortages and price hikes continue to be a constant. As a result of design changes made in consideration of procurement stability, we expect a certain level of cost reduction effect from 2023. ▪ Overseas parts procured from domestic suppliers were partially affected by foreign exchange rate fluctuations in 20102 which increased costs. Impact on FY23 to be limited.
Overseas deployment (e.g. military forces)	▪ Risk of being outperformed by overseas competitors in terms of competitiveness ▪ Potential impact of laws and regulations and local business practices ▪ Necessity of upfront investment for overseas expansion	▪ In overseas markets, economic security and unmanned needs may be stronger than in Japan, and demand for secure drones is expected to be significant.. SOTEN's demonstration in the U.S. market and subsequent inquiries have shown that SOTEN has sufficient competitiveness. ▪ A certain amount of man-hours may be required to comply with local laws, regulations, and business practices. In addition, depending on the location, it is necessary to consider local partner cooperation and collaboration parts. ▪ Possibility of aggressive upfront investment to acquire sales in overseas markets, including development of functions for local markets, export support, and initial customer acquisition.
Regulation	▪ Impact of the Civil Aeronautics Act, etc. on our business	▪ ACSL has managed to get Tier-1 type certification for Level 4 flight. No impact foreseen by Civil Aeronautics Act in the coming years.
Performance	▪ Uncertainty and seasonality of revenue recognition and cost execution ▪ Need for aggressive investment in R&D	▪ Japan sales are expected to be at least the same as the previous year, while overseas sales will be announced once a reasonable estimate is made. Seasonality will continue to be affected by customers' budget cycles, but sales of SOTEN and other products may fluctuate depending on supply. ▪ Flexible investment policy in R&D and other areas for product development, overseas expansion, and other high-potential initiatives

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