



Explanatory Documentation on Financing

July 11, 2022

Eyes to the all machines

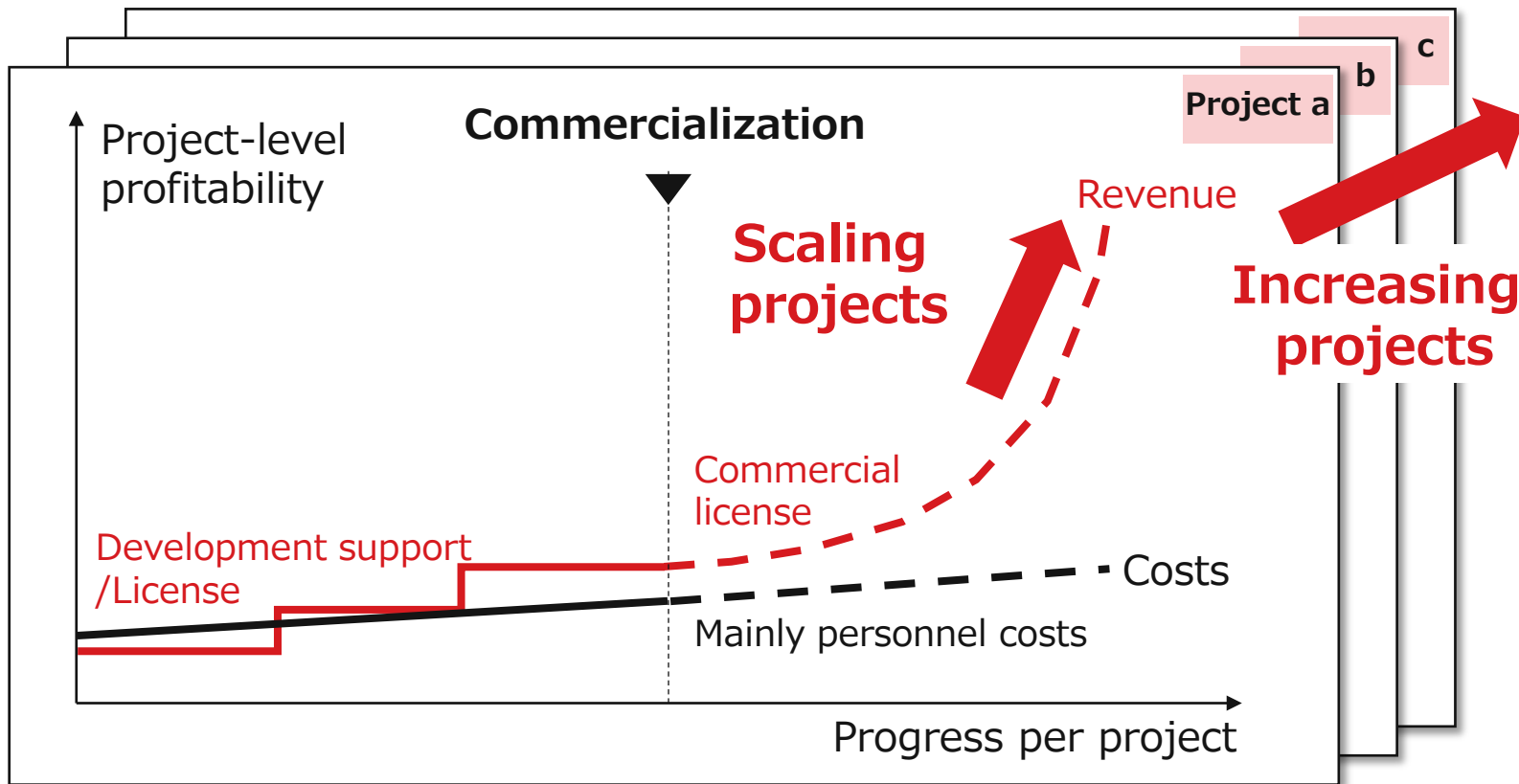
Highlight: Future growth strategy based on customers' commercialization



- With plans to have several customers launch their products using Kudan software from this fiscal year, following the commercialized product of **“Whale Dynamic”** disclosed today, **the transition from the “preparation phase” to the “harvest phase” is underway**
- To accelerate this transition, we will strengthen our business based on customers' commercialization
 - A Acceleration and expansion of customers' commercialization:** Strengthen support, technology development, and business development with the aim of increasing the number of projects to be commercialized and increasing profit at the project level
 - B Solutions business launch:** Not only embedding Kudan technology in individual products, but also providing engineering service to accelerate new solution development that synchronize multiple products and expand their applications centered on Kudan technology (digital twin, robot platform, Metaverse, etc.)
- In order to advance these measures at the optimum timing for business progress and shareholder value, we will execute two rounds of financing of 530 million yen in share acquisition rights **subject to the exercise conditions of both (1) business progress (commercialization status) and (2) stock price exceeding a certain value**, in addition to of 530 million yen of general share acquisition right in stages (Total dilution rate: 5.29%)
- This financing will **not change our target of profitability from the fiscal year ending March 2023 onward**, and we will secure earnings structure aiming for a turnaround in the next fiscal year

A Acceleration and expansion of customers' commercialization

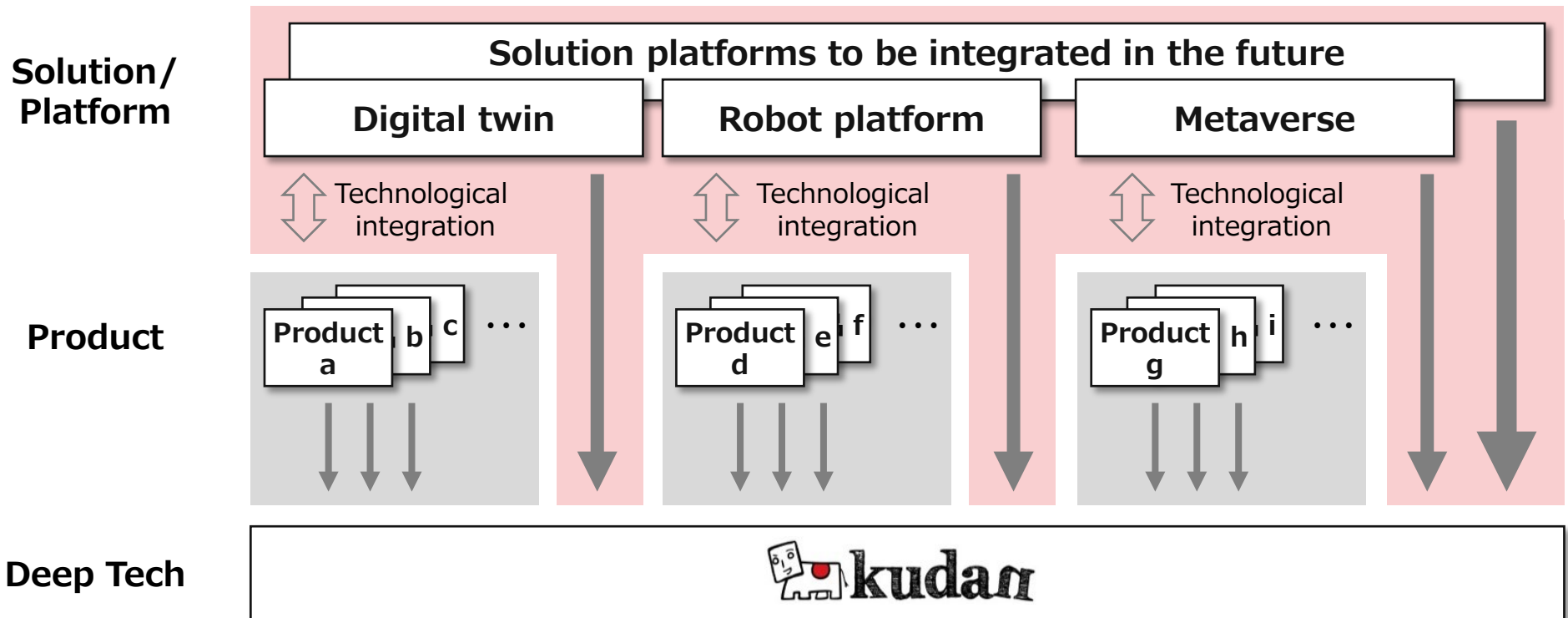
- **Scaling projects:** Strengthen support functions and technology development for the purpose of scaling projects in order to advance to the harvest phase at the project level, starting with the realization of customers' commercialization
- **Increasing the number of projects:** Strengthen business development, including global expansion, to increase the number of commercialization projects by leveraging the existing projects.



B Solution business launch

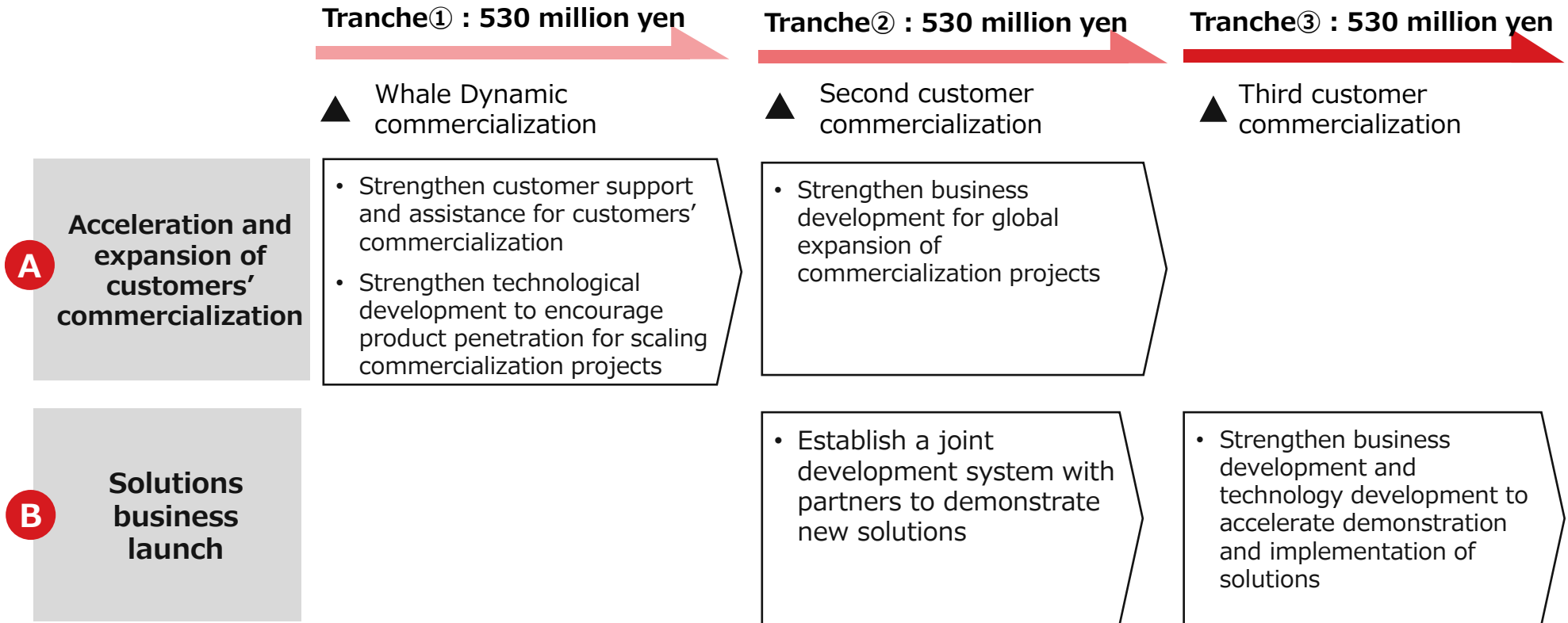
- Support the realization of solution platforms that allow multiple products to synchronize or expand their applications centered on Kudan technology
- Aim to improve profitability by taking customers' commercialization as a foothold for the solution business and by generating synergies from the solution business that will support the expansion of customers' commercialization

- Newly launched solutions business
- Existing product embedded business
- Revenue for development support and technology provision



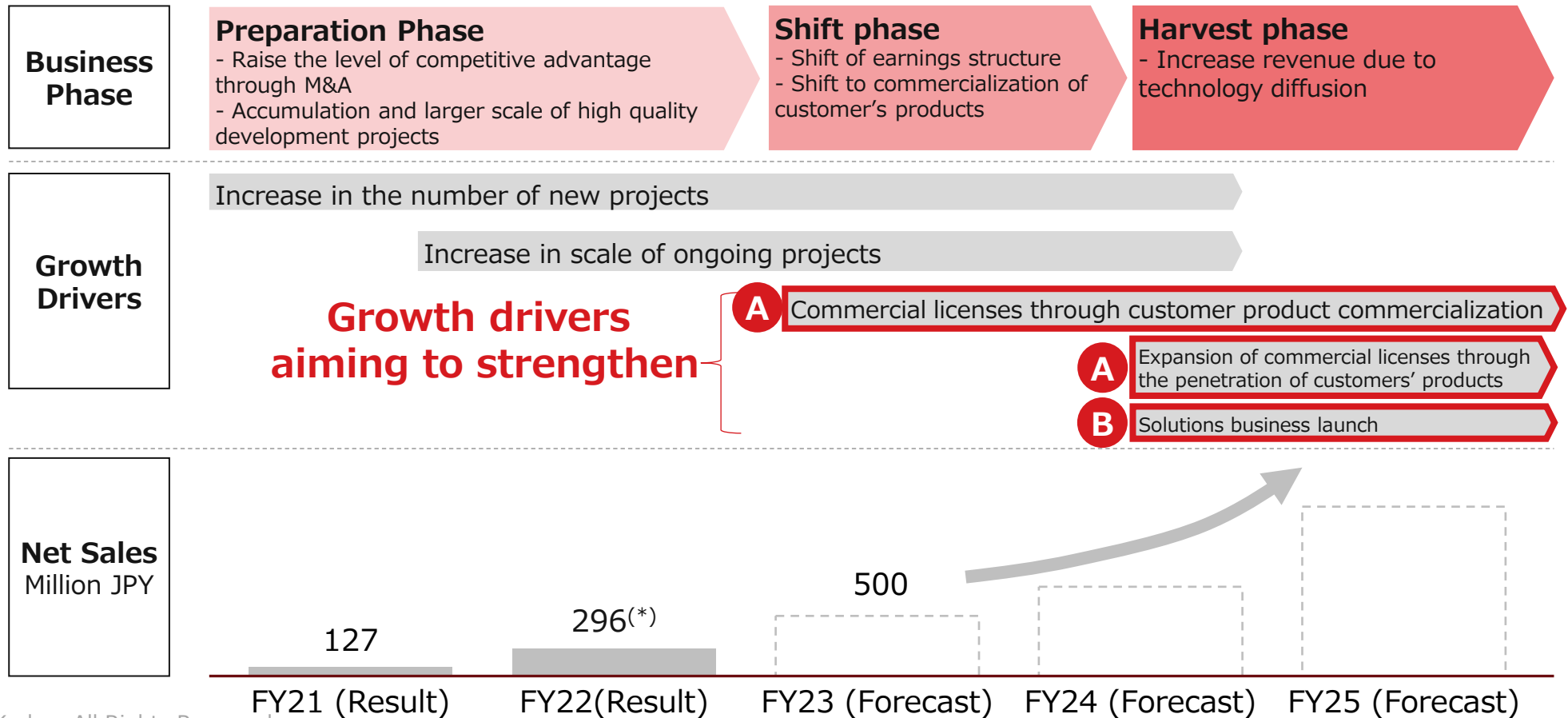
Strategic financing and business expansion

- Develop business strategy initiatives at the optimum timing in line with business progress centered on customers' commercialization
- Financing for the initiatives is arranged in stages, along with discipline to shareholder value (more on page 7)



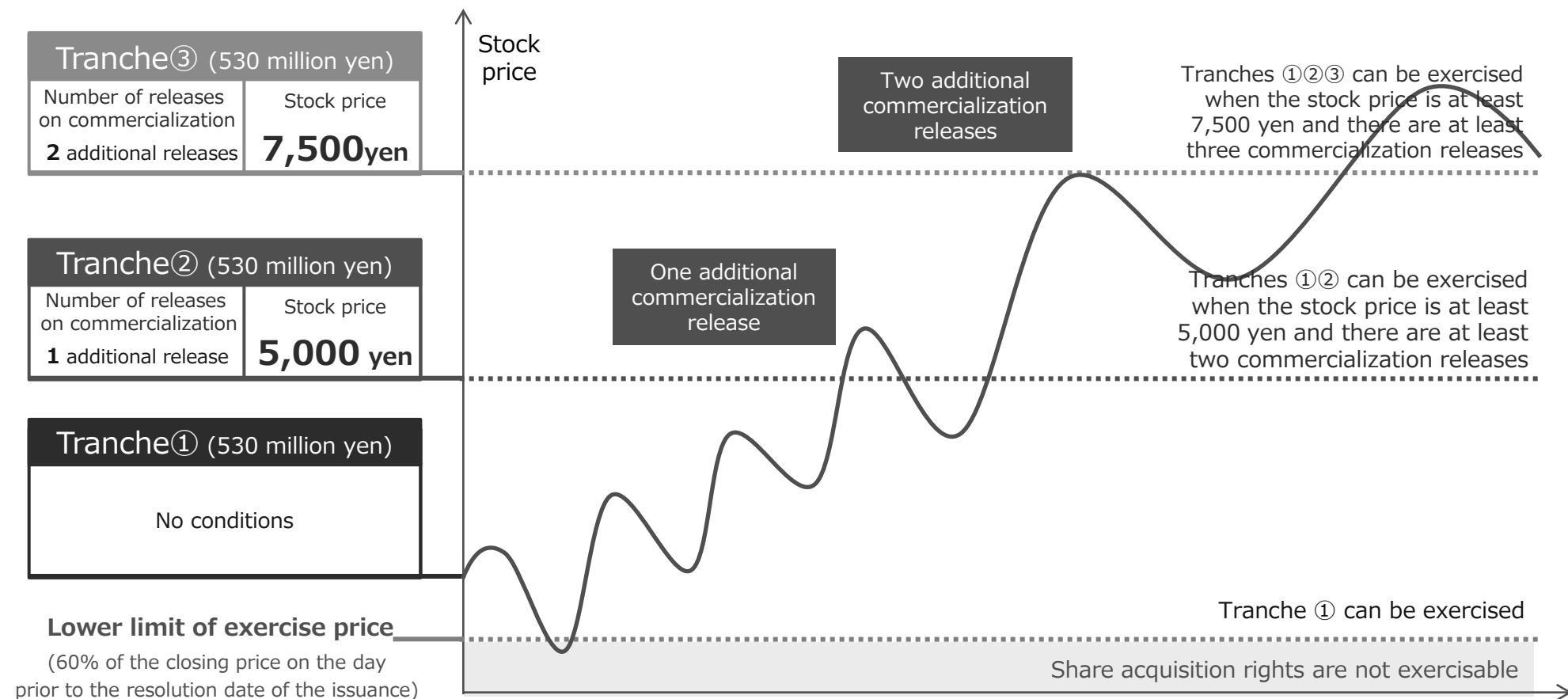
Shift to the harvest phase

- Keep the strategy to shift earnings structure aiming for profitability and revenue model through the commercialization of customers' products to realize revenue growth from the fiscal year ending March 2024 onward.
- Aim to shift to the harvest phase from "project-level profitability" to "business-level profitability" by strengthening growth drivers
- Depending on the commercialization of customers' products, Kudan aims to generate several million yen to several tens of millions of yen per project at the start of commercialization, and then to generate revenue in the hundreds of millions of yen per project as product sales expand



Finance execution scheme

- Raise a total 1.5 billion yen of growth fund in stages in line with business growth through share acquisition rights tranche (1) for **the acceleration of Whale Dynamic and further customer commercialization**, and share acquisition rights tranche (2) and (3) with **"commercialization release"** and **"stock price"** as the exercise conditions
- Designed to minimize dilution with a dilution rate of 5.29% through phased financing in line with business growth



Q. What is the "number of releases on commercialization"?

- A. The number of news releases announced for customer commercialization using our technologies

Q. Why does Kudan set the commercialization release as the exercise condition?

- A. Our business growth and capital needs for our growth are expected by the realization of customer commercialization

Q. Are share acquisition rights exercised immediately?

- A. Tranche ① can be exercised immediately, but other tranches are in principle exercisable only when two conditions are met: commercialization release and stock price.

(*) The above graph of stock price trends is an image only and does not guarantee that the Company's stock price will follow the above trend.

Dilution due to financing

- Phased stock price condition settings ensure **dilution of only 5.29%** even if all share acquisition rights are exercised

	Tranche ①	Tranche ②	Tranche ③
Amount of financing	Approx. 530 million yen	Approx. 530 million yen	Approx. 530 million yen
Stock price conditions	–	5,000 yen	7,500 yen
Number of potential shares	257,100株	106,400株	71,000株
Dilution rate	3.13%	1.29%	0.86%

Dilution rate is 5.29% even if all share acquisition rights are exercised
Phased stock price conditions allow **financing with minimal dilution**

Q. Why does Kudan set the phased stock price conditions?

- A. The scheme takes shareholder value into consideration by setting increased stock price along with business growth as the exercise condition. In addition, the stock price condition is set to curb the dilution ratio.

Q. Can the dilution rate increase depending on the stock price?

- A. Since the number of shares is fixed, the dilution rate will not increase. If the stock price rises above the expected level, the dilution rate will remain the same and the financing amount will be increasing.

Q. Is it possible to exercise the share acquisition rights below the stock price conditions?

- A. In principle, tranche ②③ are not exercisable. However, in the event of an urgent demand for financing such as unexpected growth investments to capture business growth opportunities, the exercise condition can be lifted at Kudan's discretion by a resolution of the Board of Directors.

Financing overview



		Tranche ①	Tranche ②	Tranche ③
Share issuance summary	Method of issuance	Third-party allocation of share acquisition rights		
	Estimated amount ^{※1}	Approx. 530 million yen	Approx. 530 million yen	Approx. 530 million yen
	Number of potential shares	257,100 shares	106,400 shares	71,000 shares
	Dilution rate ^{※2}	3.13%	1.29%	0.86%
	Exercise period	Three years		
Exercise price	Initial exercise price	2,069 yen Closing price on the trading day prior to the resolution date of the issuance	5,000 yen	7,500 yen
	Revision of exercise price	Revised to 94% of the closing price on the trading day prior to each exercise request made by the allotted party		
	Maximum exercise price	N/A		
	Minimum exercise price	60% of the closing price on the trading day prior to the resolution date of the issuance		
Condition ①: Stock price		–	Exercisable only if the closing price of the previous trading day is above the initial exercise price on each exercise request date	
Condition ②: Number of commercialization release		–	One additional release	Two additional releases
Other	Voluntary claim	The issuing company can acquire share acquisition rights at 100% of the issuance price upon two weeks' prior notice after one year from the date of issuance		
	Request for acquisition	The holders of share acquisition rights may demand that the issuing company acquire their share acquisition rights at 100% of the issue price if any of the following events occurs ①If the stock price falls below the minimum exercise price after one year of issuance ②At the expiration of the exercise period		
	Restriction on transfer	Restricted for transfer		
	Suspension of exercise clause	Exercise can be suspended at Kudan's discretion when the closing price of the previous day's trading falls below 80% of the initial exercise price	Only if the exercise condition is lifted by a resolution of the Board of Directors, exercise can be suspended at Kudan's discretion	
	Other	–	The conditions – stock price and number of releases on commercialization – can be lifted by resolution of the Board of Directors	

※1 Amount assuming all share acquisition rights are exercised at the initial exercise price

※2 Percentage of total number of voting rights 82,196 (total number of shares issued 8,230,067) as of March 31, 2022

Q1	What is the “number of releases on commercialization” for the exercise condition?	<p>This is the number of news releases for customer commercialization using our technologies.</p> <p>The commercialization release “Commercialization of Whale Dynamic product” was announced on July 11. The exercise condition is for one new commercialization release in Tranche ② and another new commercialization release in Tranche ③ (total of two releases including the first commercialization release in Tranche ②).</p>
Q2	Why does Kudan set the number of news releases on commercialization as the exercise condition?	<p>Our business growth and capital needs for our growth are expected by the realization of customer commercialization</p>
Q3	Are share acquisition rights exercised immediately?	<p>Tranche ① can be exercised immediately, but other tranches are in principle exercisable only when two conditions are met: commercialization release and stock price.</p>
Q4	Why does Kudan set the phased stock price conditions?	<p>The scheme takes shareholder value into consideration by setting increased stock price along with business growth as the exercise condition. In addition, the stock price condition is set to curb the dilution ratio.</p>
Q5	Can the dilution rate increase depending on the stock price?	<p>Since the number of shares is fixed, the dilution rate will not increase. If the stock price rises above the expected level, the dilution rate will remain the same and the financing amount will be increasing.</p>
Q6	Is it possible to exercise the share acquisition rights below the stock price conditions?	<p>In principle, tranche ②③ are not exercisable. However, in the event of an urgent demand for financing such as unexpected growth investments to capture business growth opportunities, the exercise condition can be lifted at Kudan’s discretion by a resolution of the Board of Directors</p>

Q7	<p>Is there any chance that this financing will not be executed without announcing commercialization releases even if customer commercialization is realized?</p>	<p>The "commercialization release" includes any kind of public announcement from Kudan, such as financial results presentation material, in addition to news release, and it is assumed that the relevant commercialization release will be announced when customer commercialization is realized.</p>
Q8	<p>Are there any concerns about the financial plan if the exercise conditions – the stock price and releases on commercialization – are not achieved?</p>	<p>If the exercise conditions – the stock price and commercialization releases – are not achieved, tranche ② and ③ will not be exercised in principle. In that case, the assumed growth investment will be executed with cash on hand, funds procured from tranche ①, and funds acquired through a turnaround in the next fiscal year ending March 2024 onward.</p>
Q9	<p>Did Whale Dynamic's commercialization change your revenue or other business forecast for the current fiscal year ending March 2023?</p>	<p>In general, revenue volume is expected to be small immediately after customer product is commercialized, and we expect that the subsequent expansion of market sales will lead to an increase in its license fees (see page 6). At this time, we do not expect Whale Dynamic's commercialization to have a significant impact on our financial performance, and therefore, we have not changed our financial performance forecast for the current fiscal year.</p>
Q10	<p>Are there any changes on Kudan's plans for improving earnings structure in the current fiscal year ending March 2023 and in the future due to the financing and growth investments?</p>	<p>There is no change in our target of improving the earnings structure during the current fiscal year and aiming for a turnaround in the next fiscal year and onward.</p>

(Reference) About Whale Dynamic

Company Overview:

Name	Whale Dynamic Co.Ltd.
Representative	CEO and Founder David Yufei Chang
Office	Shenzhen, China
Established	2017
Business	Development and sales of automated driving and intelligent transportation products

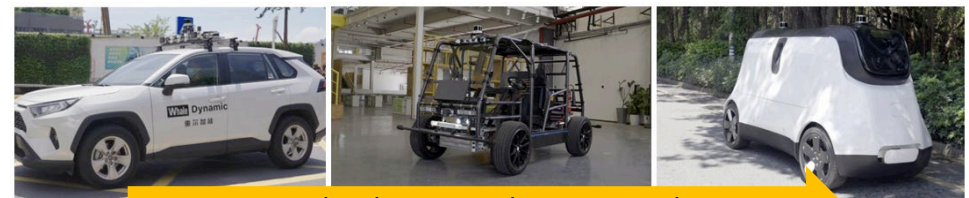
Whale Dynamic is an autonomous driving technology company, founded by David Chang, former senior product manager of Baidu's Apollo autonomous driving platform. The company holds a number of basic technology patents related to driverless vehicle, and its technology is widely used by many transportation providers, tier1 companies, and universities in China.



Technology and Product Development

Whale Dynamic has traditionally developed core element technologies and full-stack integration in the area of automated driving for passenger vehicles, and has transplanted these technologies into multi-purpose autonomous vehicles designed from zero-base. By employing a good balance of in-house developed and partner technologies for hardware and software, Whale Dynamic could quickly bring high-quality finished, mass-producible, and cost-competitive products to the markets.

Domestic and international industry organizations have recognized the company for its technological capabilities and high level of product perfection. In 2021, Whale Dynamic received several awards, including the Baidu Apollo's Excellent Team Award and Technology Innovation Award at the World Intelligent Vehicle Conference.



Technology Development Path

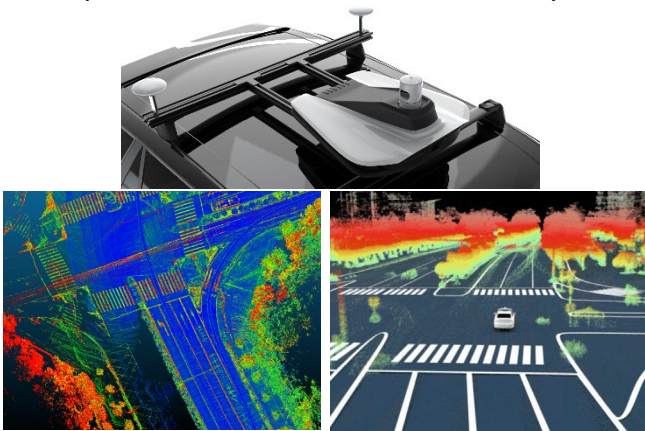


(Reference) About Whale Dynamic Product Release

- As the autonomous driving market continuously grows, Kudan and Whale Dynamic have been in technology collaboration since 2021, to respond to the rapidly increasing market needs for driverless delivery and other autonomous mobility-related services.
- Today, release of commercialized products integrated Kudan 3D-Lidar SLAM (KdLidar) is announced, along with purchase order of the project in Tier1 city in China. KdLidar integration enables highly accurate and robust mapping and positioning in dynamic changing environments.
- Two companies will further strengthen their technology collaboration, and partner in the sales of products to the global market and expand the sales in China.

High-definition Mapping Kit

- Consists of the mapping hardware kit and software toolchain for HD mapping.
- Hardware can be easily installed in passenger cars as a mobile mapping system, enabling high quality data collection.
- Software toolchain generates high-density point clouds and semantic HD maps with centimeter-level accuracy.



Multi-Purpose Autonomous Vehicle - WD1

- As driverless delivery vehicle, it can operate autonomously as the electric vehicle on public roads in urban areas and perform various daily tasks.
- Designed and developed from scratch, from hardware (including chassis) to software modules, the sophisticated design, detailed operational scenario design, and extensive on-road testing enables a wide range of use cases.



Drivable Test Vehicle

- Supports autonomous driving and manual driving in parallel, and is developed with good customization flexibility.
- Fits for validation of autonomous driving technology by developers and researchers of autonomous service enterprises or academic institutions, and makes it possible to quickly conduct practical tests in reasonable cost levels.



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- It is conceivable that risks both understood and unforeseen, uncertainties and other factors may cause actual results to differ from the projections contained within this document.
- Kudan offers no guarantee of the accuracy of its projections for the future and accepts that they may differ significantly from actual results.
- All projections for the future included in this document are based upon information available to Kudan as of July 11th, 2022, and may not be updated or changed to reflect future developments or changes in status.