



Financial Results Material for FY23/12 Q2

ACSL Ltd (TYO: 6232)
Aug 10, 2023

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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	83 (as of June 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 glance¹

Ratio of engineers

Approx. **58%**

of Non-Japanese

Approx. **20%**

ISO

2

ISO9001 (Quality Management)
ISO27001 (Security)

Client

213

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.

A drone is shown in flight against a clear blue sky. Below the drone, a series of misty, layered mountain ranges are visible, creating a sense of depth and scale. The drone is positioned in the upper left quadrant of the image, flying towards the right.

1. Mission / Market / Growth strategy

2. FY23/12 Q2 result

3. Business highlights

4. Strategy to achieve mid-term goal

5. Appendix

MISSION

**Liberate Humanity
Through Technology**

VISION

**Revolutionizing Social
Infrastructure By Pursuing
Cutting-Edge Robotics
Technology**

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

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

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.

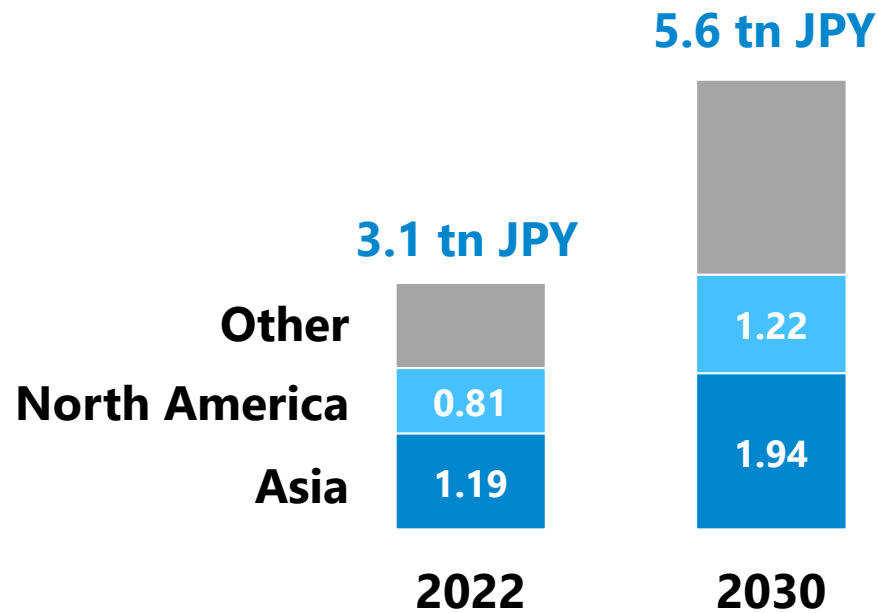
03

Decarbonization EV

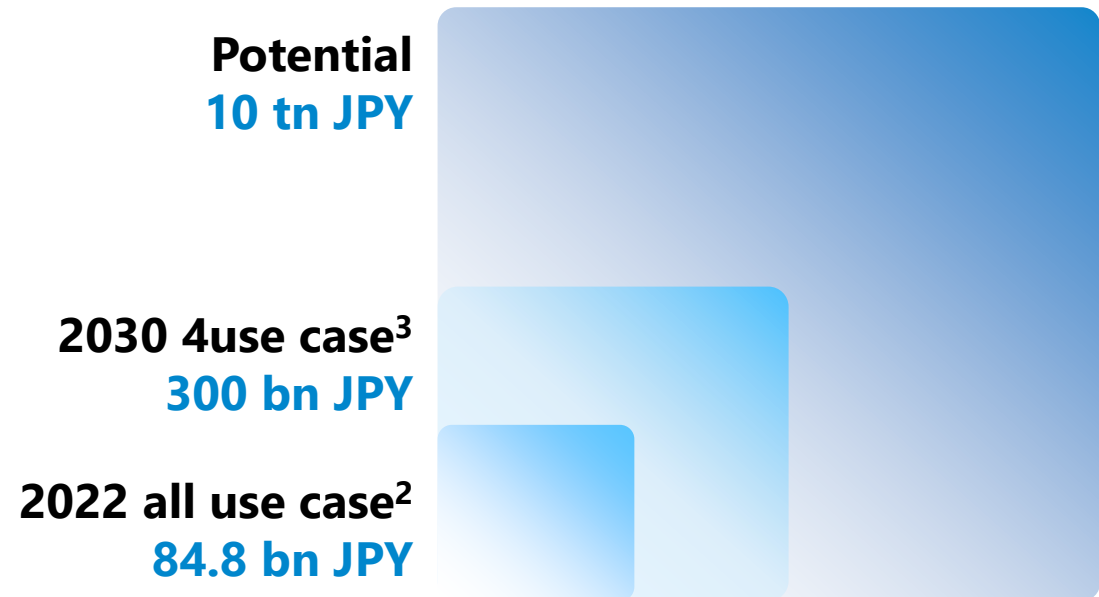
Drones recognized as a tool for decarbonation and EV. Drones are considered to work together with trucks in logistics field

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

Global drone market¹



Japan drone hardware market



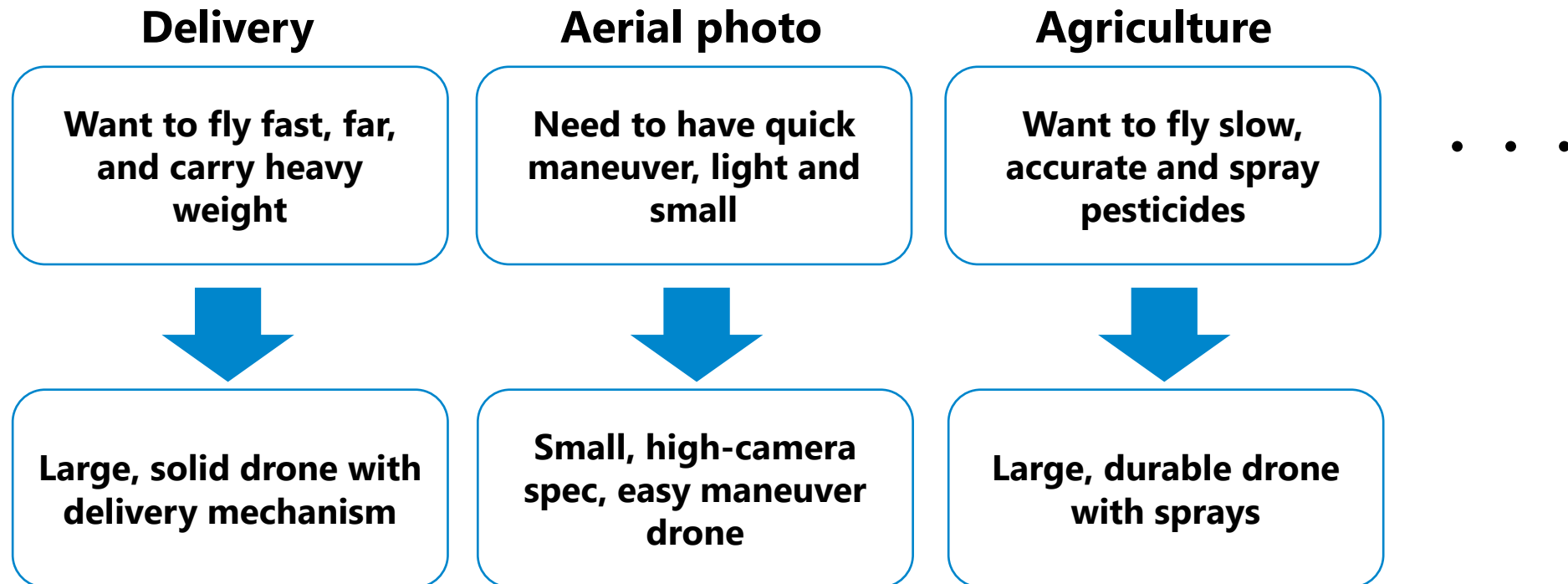
¹ Drone Industry Insights (Calculated at 100JPY/USD)

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"

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

Drones will have specific features tailored to each applications



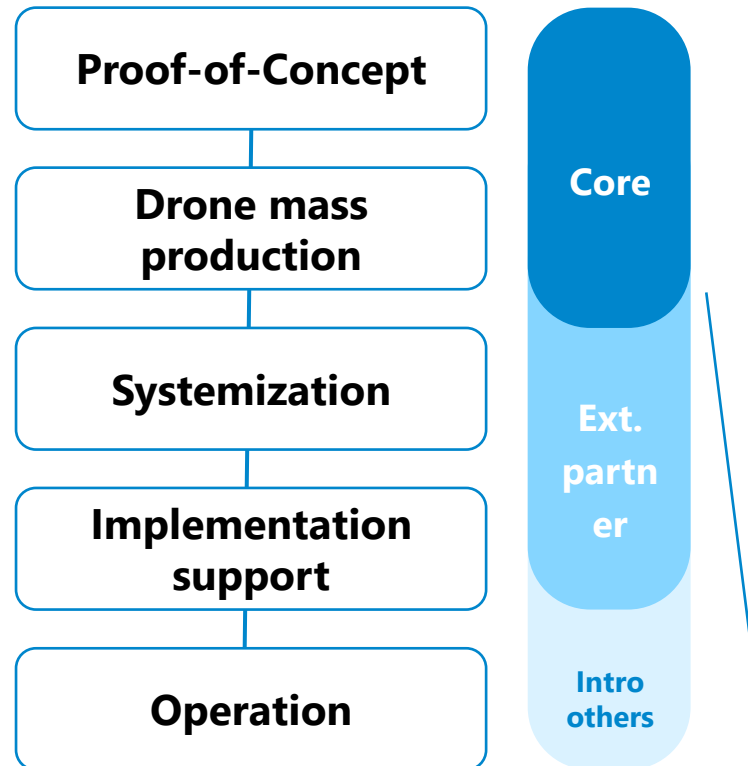
A global manufacturer that **update social infrastructure through realization of **autonomous control technology** and **co-existence of robotics and humans****

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.**

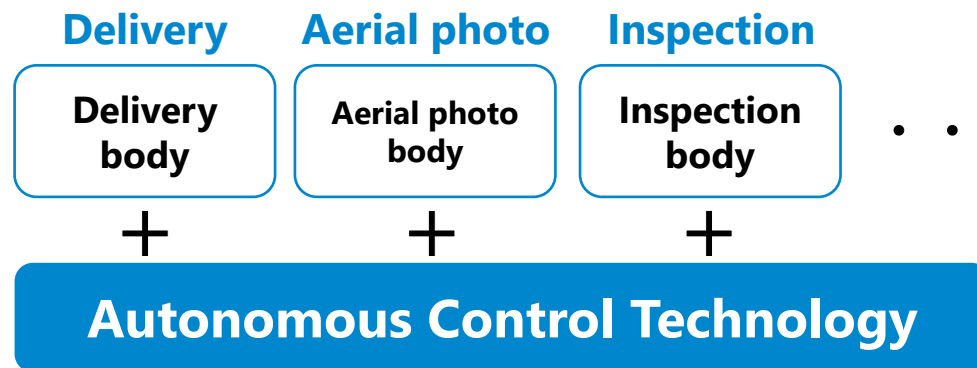
2. Sales of application-specific drones

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

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

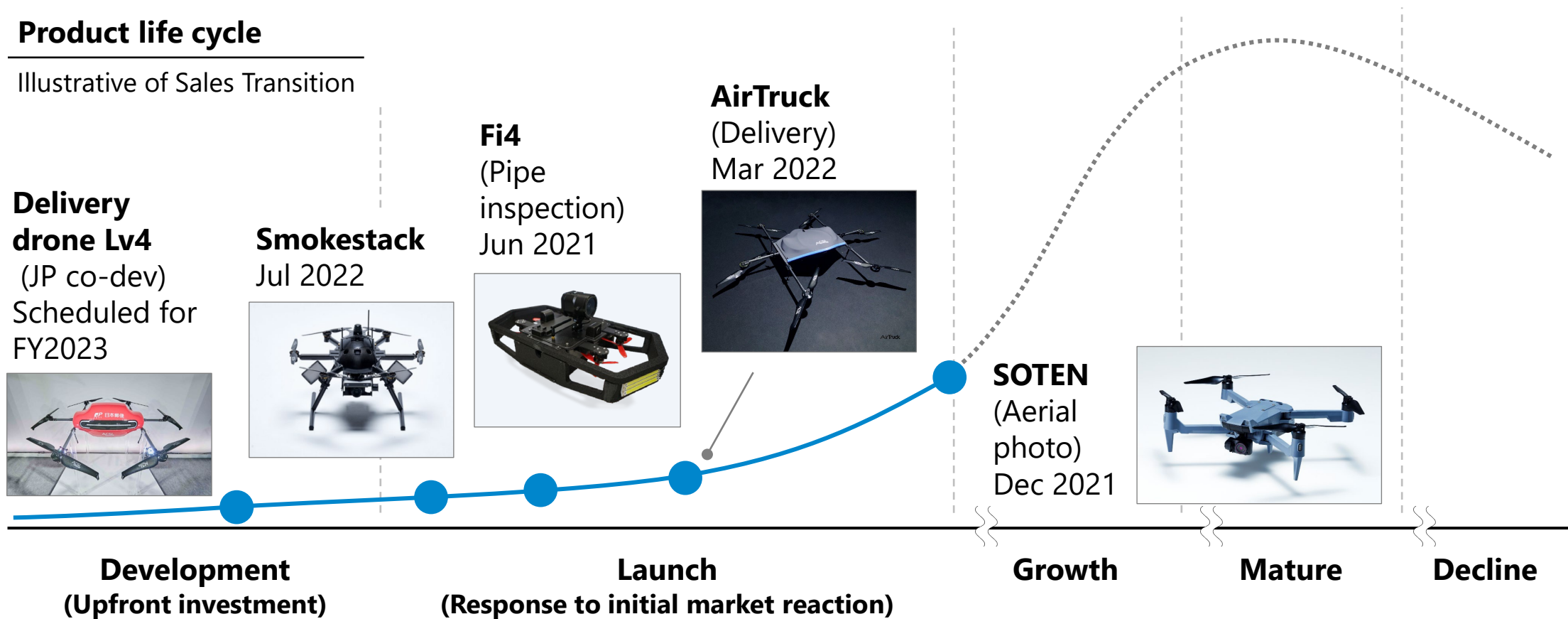


Application-specific drones already in mass production phase

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

Product life cycle

Illustrative of Sales Transition





1. Mission / Market / Growth strategy

2. FY23/12 Q2 result

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FY23/12 Q2 results highlights



Overall

Strong progress on oversea market, winning 1.83 bn JPY project. MOU signed with local partner in US, EU, Taiwan and Indonesia

Strong growth in order backlogs with positive outlook for full year

Sales

Q2

95 mn JPY

YoY +21%

Cumulative

524 mn JPY

YoY -49%

Large purchase order from India, and backlogs built up to 2.16 bn JPY. Outlook for full year is positive

Profit rate

**Gross profit rate
(Cumulative)**

-2%

YoY -12pt

Marginal profit rate maintained at high level

**Marginal profit rate
(Cumulative)**

59%

YoY +28pt

Operating income

Cumulative

-880 mn JPY

YoY -6 mn JPY

Though lower revenue, operating profit same as last year

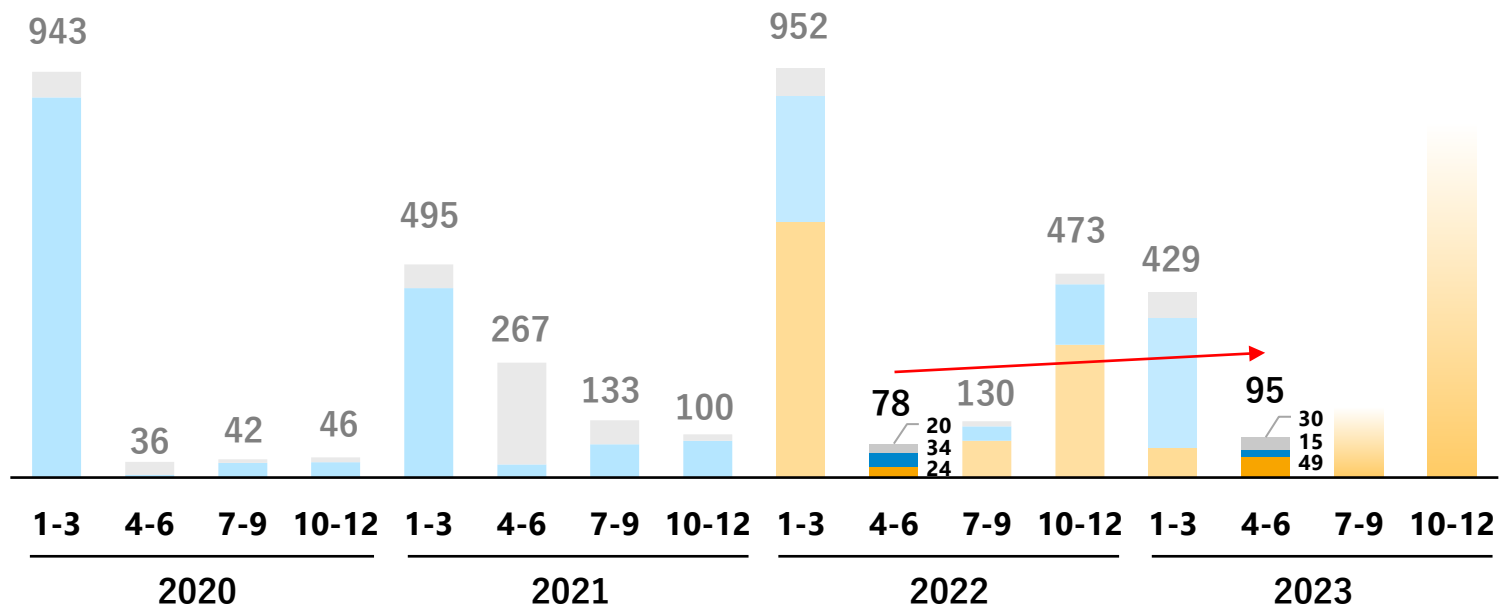
Quarterly sales transition and backlogs

Q2 had 21% growth versus last year. Large project won in India, with positive outlook for full year

Sales¹

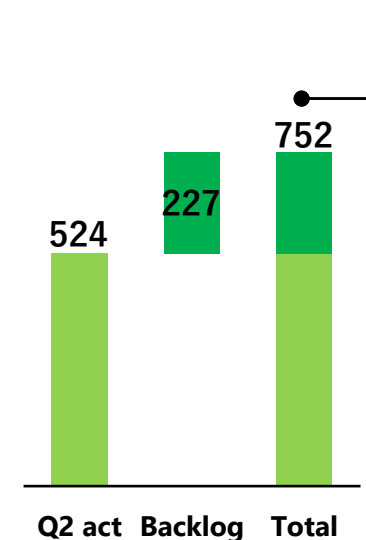
Mn JPY

Application-Specific Solution Dev Other



Mar. end sales and backlogs²

Mn JPY



In addition to 752 mn JPY as of end of June, ACSL received orders for a large project worth 1.83 bn JPY in India³ and 105 mn JPY in Japan

Outlook for second half positive with potential projects in overseas markets, e.g., US

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 227mn JPY is the total value of projects with a purchase order or similar documents at the end of Jun 2023

3: There is a possibility that this product may not be sold depending on export-related permits and approvals or the results of risk assessments.

The amount of sales and the timing of recording sales are currently being reviewed

Strategic MOU signed with local partner to ramp up overseas markets

Across FY23-FY25, MOU related to drone and robotics projects tallies more than 400 units, 5 bn JPY (37mn USD) globally

Order of 13.6 mn USD in India

- Already signed 30mn USD worth of MOU across FY23 and FY24 with AeroArc
- As the first scope of the MOU, won purchase order of robotics components worth 13.6 mn USD
- Part of the purchase order to be booked in FY23²

US market

- As the result of ACSL's entry to the US market, signed MOU with 2 strategic partners
- GenPac: More than 50 units of drone sales by FY23
- C2: Up to 50 drones to be sold to customers during FY23 in the infrastructure inspection field

Asia and EU

- Taiwan: MOU of up to 1 bn JPY worth of drone projects by FY25
- Indonesia: MOU to promote and distribute drones in Indonesia
- EU: MOU of more than 300 units of drone sales in EU and Latin America by FY25

1: Calculated based on 1 USD = 135 JPY

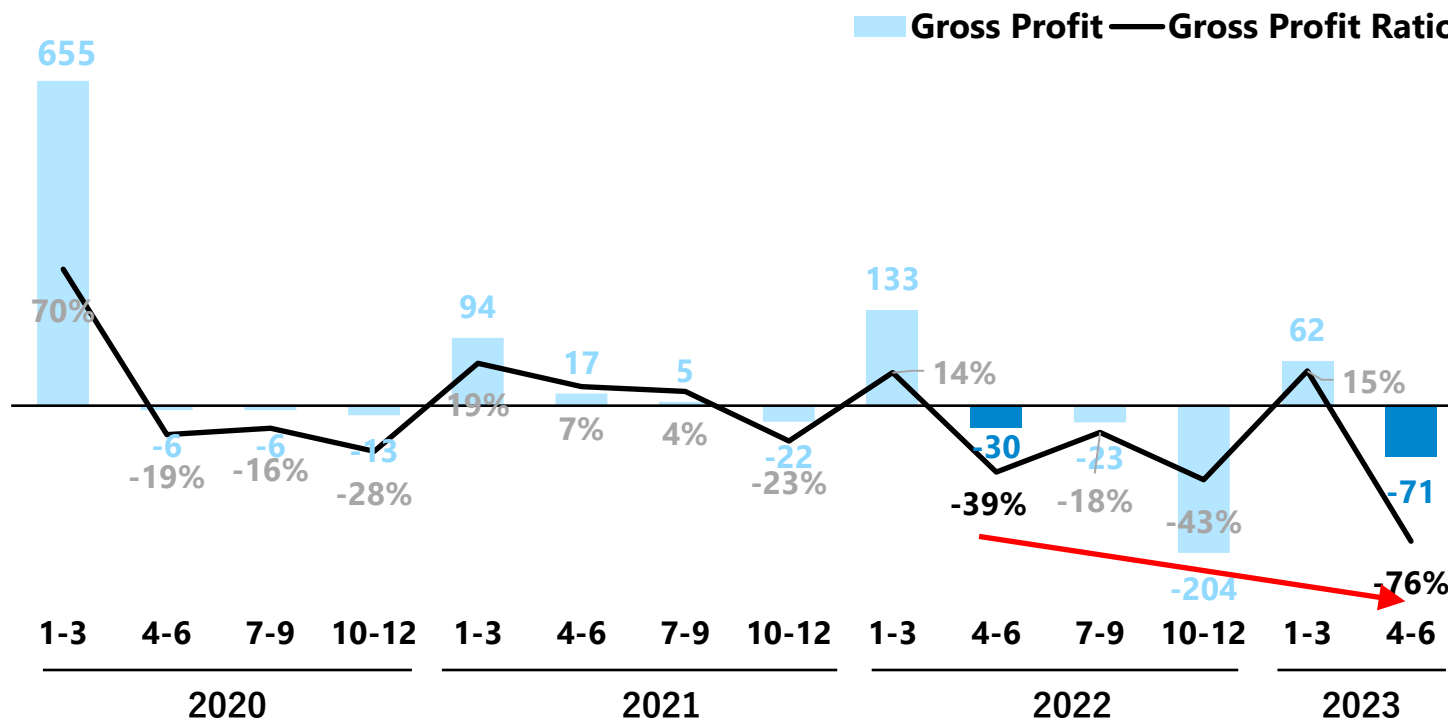
2: There is a possibility that this product may not be sold depending on export-related permits and approvals or the results of risk assessments. The amount of sales and the timing of recording sales are currently being reviewed

Gross Profit and Gross Profit Ratio

Gross profit rate lower than same period last year. Fixed production cost is a burden

Gross Profit and Gross Profit Ratio¹

Mn JPY



- Gross profit lower compared to same period last year
- Revenue for Q2 is small and hence fixed production cost cannot be covered
- This fiscal year, design changes to replace expensive components will be implemented to eliminate the impact

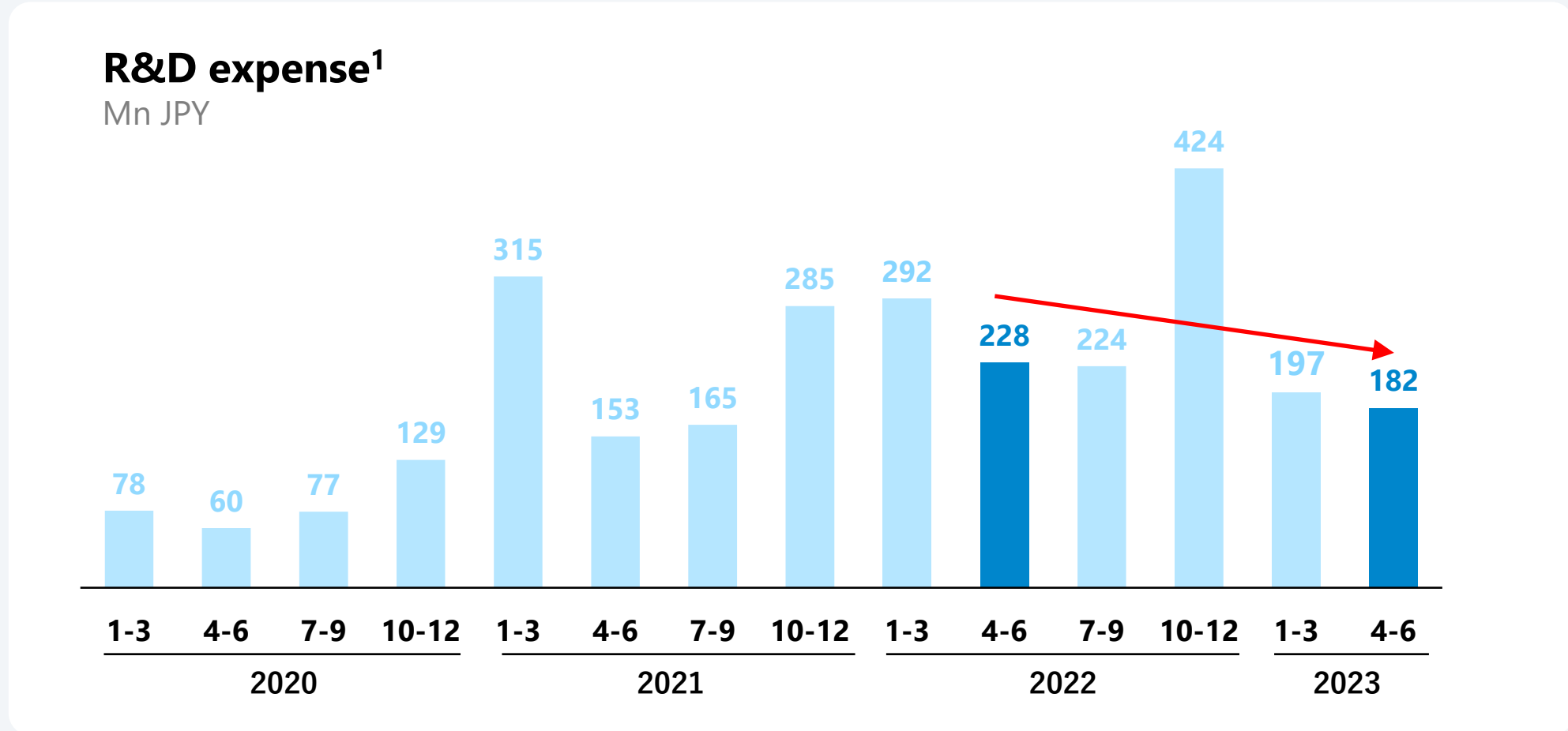
Marginal profit ratio by segments¹

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

		FY22/12 full year		FY23/Q2 cum
SOTEN (Aerial photography)	Sales (100mn JPY)	9.3		0.8
	# of drones (units)	645		29
	Marginal profit ratio (%)	20	➔	50
Solution Development (Proof-of-concepts trials, sales of prototype drone)	Sales (100mn JPY)	5.0		3.1
	Marginal profit ratio (%)	54	➔	66

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.

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



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

Upper camera mount for SOTEN

- Released an upper camera mount for SOTEN
- Capable of mounting standard camera as well as optical zoom camera on top of the drone
- Enables inspecting under bridges and pipelines



Upper camera mount

RTK-SOTEN

- Released RTK-SOTEN, which has high accuracy of measurement using RTK
- Capable of localizing at centimeter accuracy using GNSS correction data service
- Enables drones to localize accurately in inspection or disaster surveys



RTK-SOTEN

FY23/12 Q2 results and outlook for FY23/12

Business progress solid. Overall cost structure improved.

[Mn JPY]	FY23/12 Q2 actual	FY22/12 Full year	Results of same period last year	YoY compari- son	Summary
Net sales	524	1,635	1,031	▲506	<ul style="list-style-type: none"> Decrease in YoY comparison as last year had an irregular first shipment of SOTEN (590 mn JPY) Backlog is 2.16 bn JPY and positive outlook for full year
Gross profit	▲9	▲124	103	▲112	<ul style="list-style-type: none"> Improved compared to last year
Gross profit ratio	▲2%	▲8%	10%	▲12pt	<ul style="list-style-type: none"> Marginal profit ratio improved, and semicon negative impact resolved
R&D expense	379	1,168	520	▲141	<ul style="list-style-type: none"> R&D in Q2 continues to be curbed to a certain level Plans to invest flexibly in overseas expansion
Operating income	▲880	▲2,203	▲874	▲6	<ul style="list-style-type: none"> Operating loss improved YoY despite lower sales
Net income	▲935	▲2,593	▲829	▲106	<ul style="list-style-type: none"> Non-operating expenses were recorded for fundraising costs

- 1. Mission / Market / Growth strategy**
- 2. FY23/12 Q2 result**
- 3. Business highlights**
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Int-Ball2 equipped with ACSL Visual SLAM was launched to space on the space rocket "SpX-28"

Role of Int-Ball

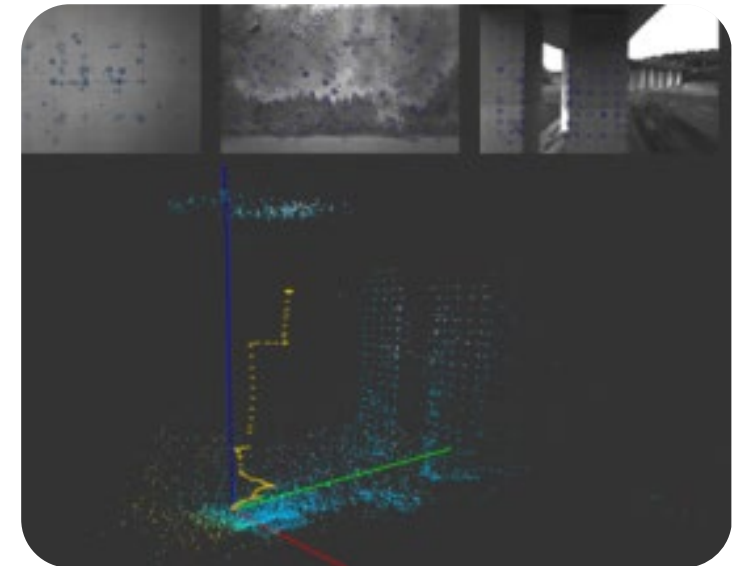
JAXA developed a drone "Int-Ball2" that flies inside the Kibo space station. The drone maintains its attitude and captures images and videos of the space station

Technology that ACSL provided

ACSL provided Visual SLAM to Int-Ball2. Visual SLAM captures videos of the environment and builds a 3D model of the environment to enable localization within the space station



Ground test for Int-Ball2
(C)JAXA



Environment 3D model build
using Visual SLAM technology

Exhibited delivery drone at UPU Global Conference

Introduced PF2-CAT3, the first drone that flew over manned areas and a delivery drone in development at the WCO-UPU Global Conference in Tokyo

WCO-UPU Global Conference

A conference established based on a WCO-UPU treaty signed on May 2022 at the Universal Postal Union, where delegations from both parties come together for further collaboration

ACSL exhibit

Presented postal delivery services to delegations of more than 30 countries. Delegations were with high attention to social implementation and drone specs



(Right) Director General Masahiko Metoki

(Left) ACSL CEO Satoshi Washiya



Team member explaining to the delegations

Released survey drone PF2-AE Survey

Enable laser surveys using YellowScan Lidar

Background of development

Drones are starting to be used in construction, architecture and urban planning to reduce cost and shorten construction period.

By mounting laser scanner on drones, the laser can be shot from the sky through woods and trees, enabling the user to survey lands with higher data than image surveys

Characteristics of PF2-AE Survey

PF2-AE Survey uses the same security technology as for SOTEN. The drone is mounted with YellowScan LiDARMapper+ / Ultra 2, a global leader in this field. The drone can stably survey with high accuracy and the data can either be monitored on site or used for documentations required in surveying fields



Released SOTEN Virtual Trainer

Developed a drone specific virtual trainer to support pilots with complex trainings regardless of time or location

Background of development

As SOTEN started to be used, ACSL received many voices from our customers that there were not enough places to practice flights, and were anxious about emergency maneuvers. A virtual trainer was development to meet this requirement.

SOTEN Virtual Trainer

The virtual trainer can be used anywhere, anytime to practice drone flights and maneuvers.

The trainer uses a PC and a controller, with the same UI and algorithm as the real drone.



SOTEN Virtual Trainer



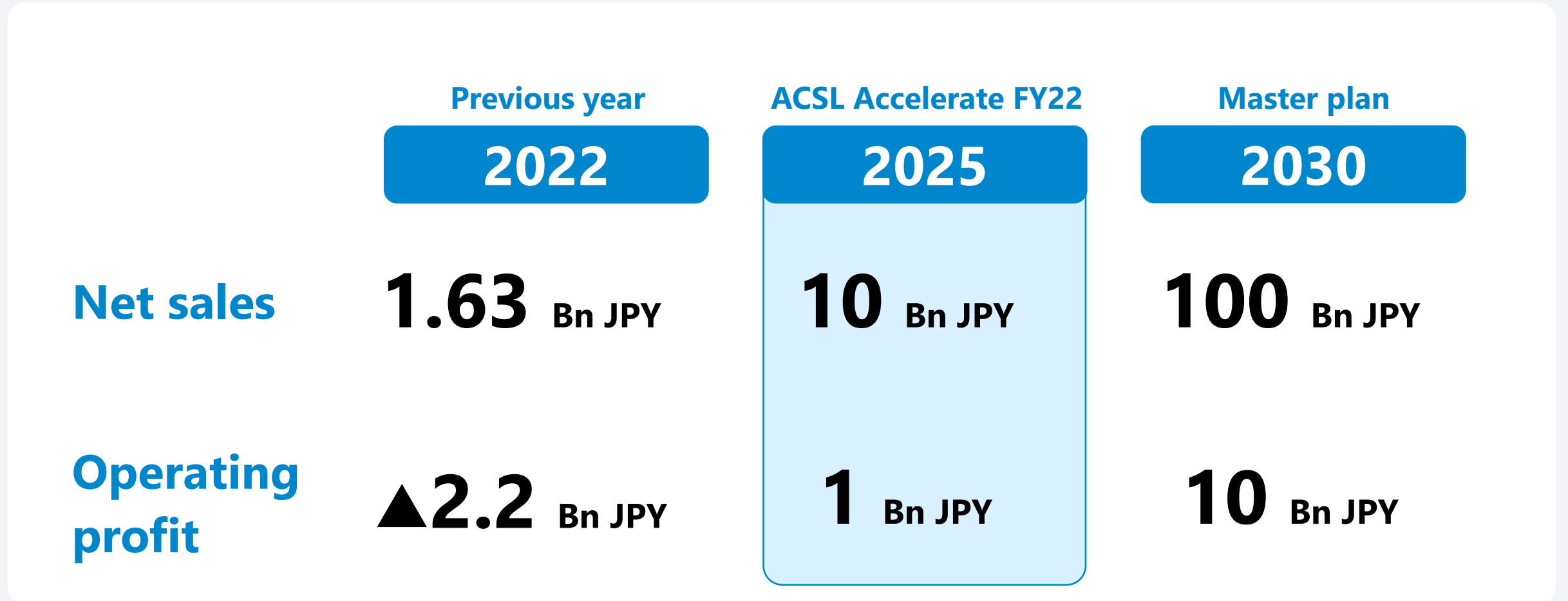
Actual operating image



1. Mission / Market / Growth strategy
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Mid-term financial goal

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



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

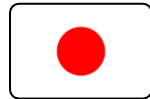
Exploring potential adaptation of autonomous control systems to other fields

The background of the slide is a close-up, high-angle photograph of a grey drone. The drone's body, arms, and propellers are visible, with a red LED light glowing from the bottom of one of the arms. The lighting is soft and even, highlighting the textures of the drone's plastic and metal components.

FY23 Strategic Policy

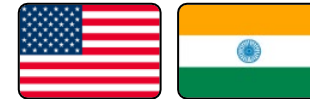
Full-scale overseas expansion

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

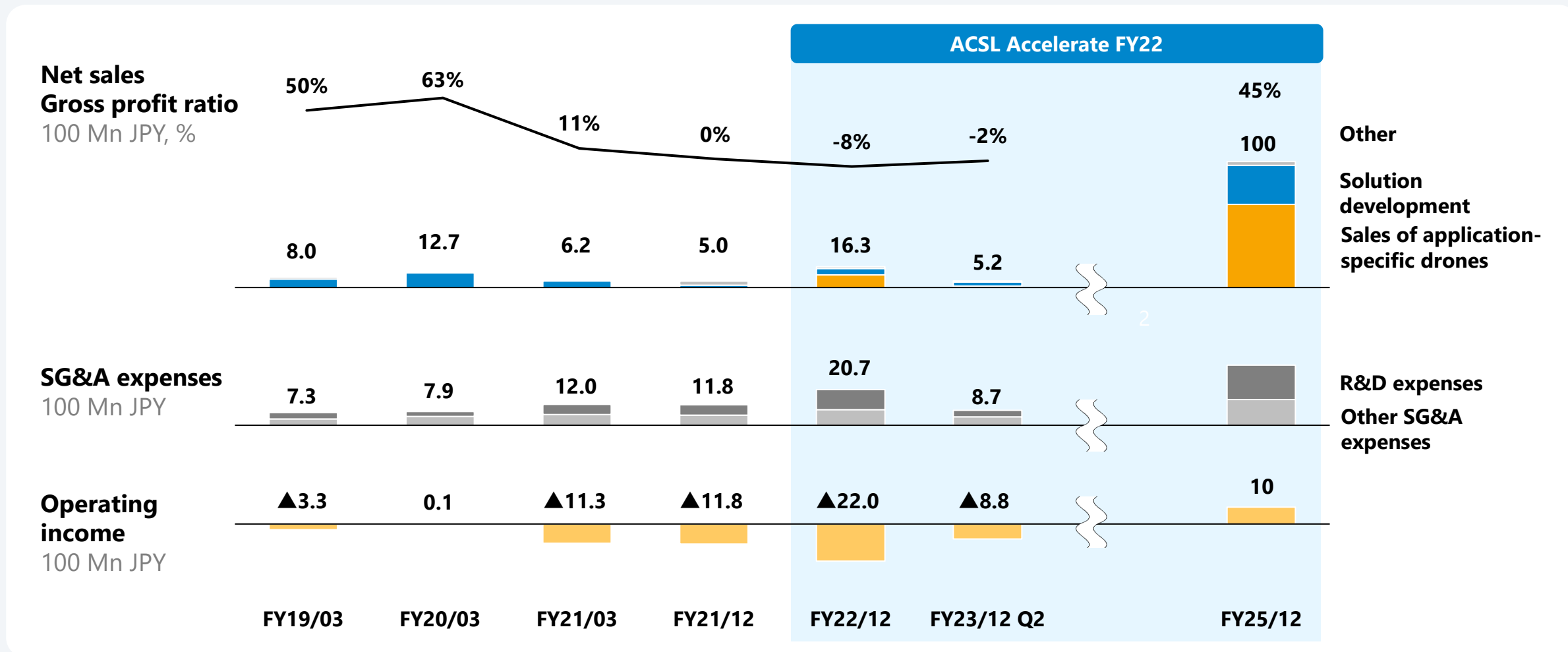
- Obtain export licenses and comply with local regulations for mass-produced drones to meet economic security needs and re-launch in North America, Asia, and India
- Focus on marketing and public relations to improve global presence
- Strategic MOU with local partners

Performance targets

- Japan net sales equal to or greater than the net sales of 1.63 bn JPY in FY22/12
- Though overseas sales for FY23/24 has a backlog of about 2 bn JPY already, difficult to calculate appropriate figures at this point due to export permit and booking timing, hence specific forecasts are not disclosed.

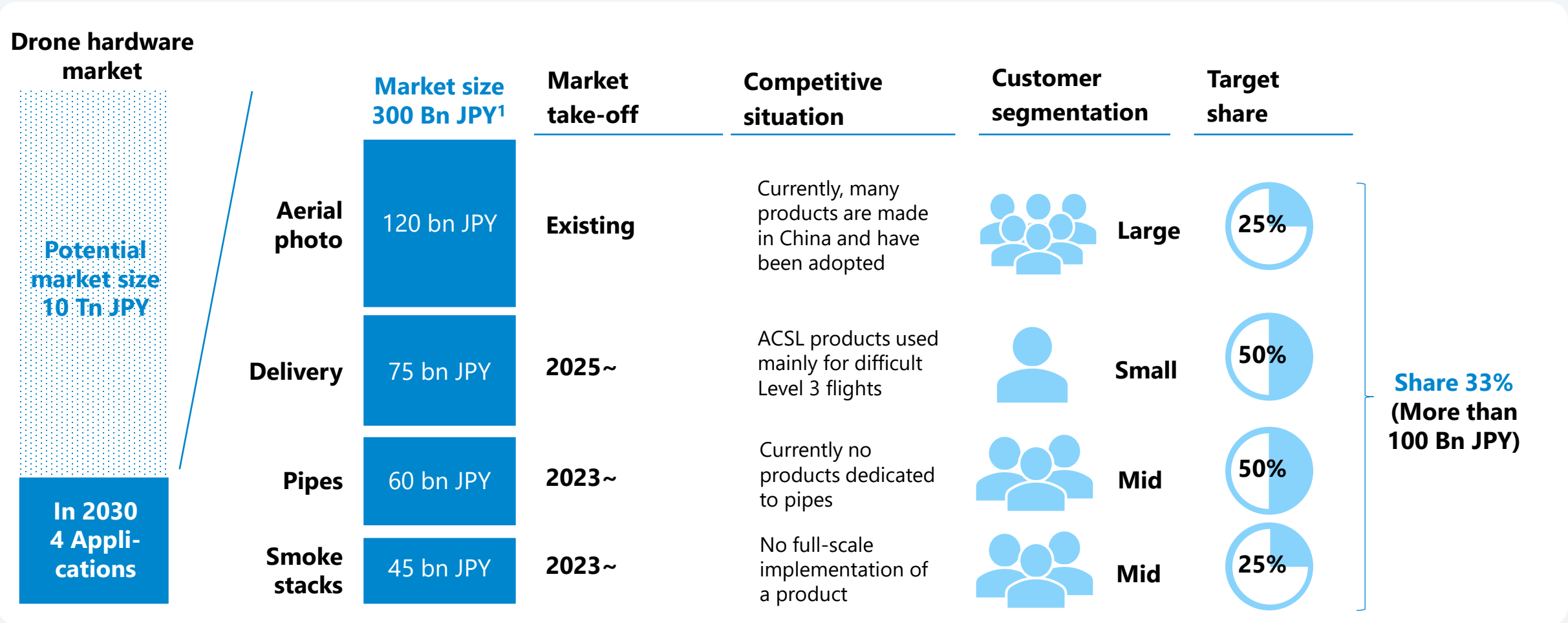
Sales and gross profit that ACSL targets by FY25

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



Aiming for net sales of 100 Bn JPY in 2030

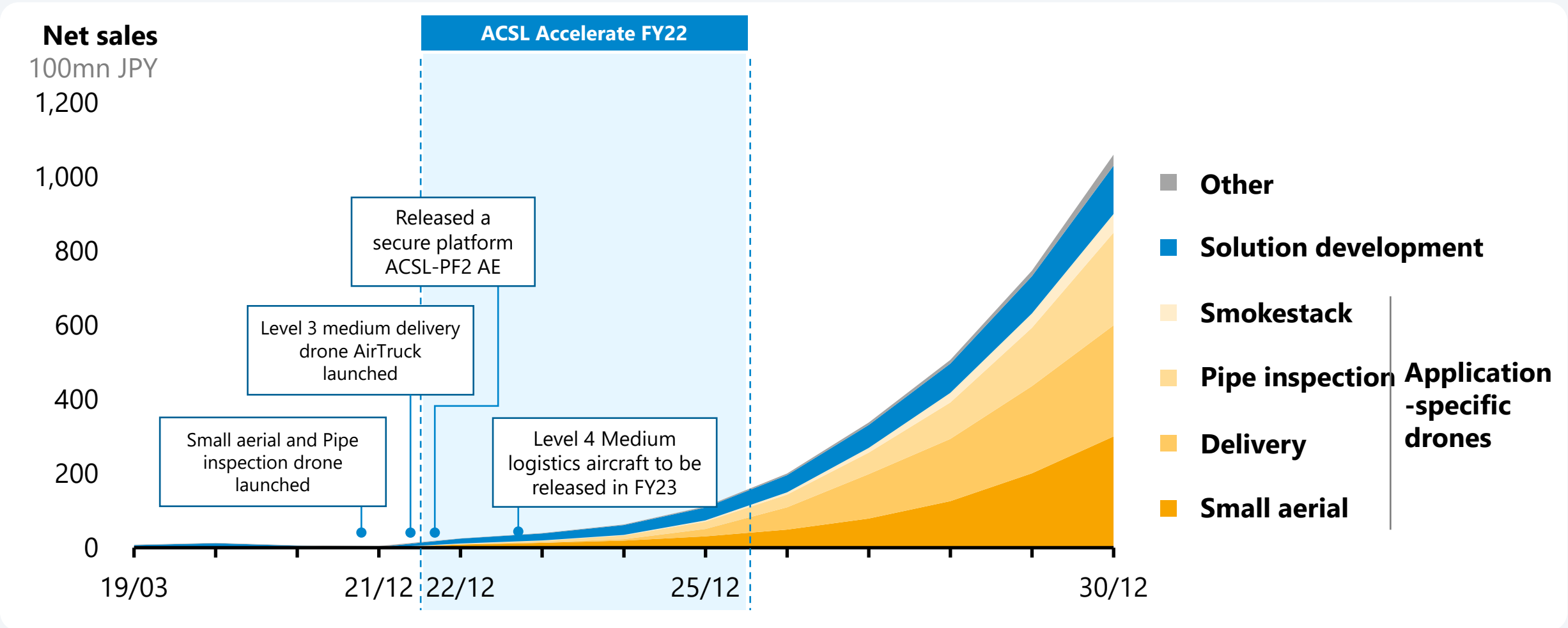
Achieve 33% market share in 2030 and realize 100 Bn JPY in 4 applications



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



- 
- A drone is shown in flight against a clear blue sky, positioned in the upper left quadrant of the slide. Below the drone, a series of misty, layered mountain ranges stretch across the horizon, creating a sense of depth and atmosphere. The overall color palette is dominated by blues and greys.
- 1. Mission / Market / Growth strategy**
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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, a certain degree of cost reduction and a recovery in marginal profit margin are expected from 2023,
Outlook	What is the outlook for sales and profit in FY23/12?	For the current fiscal year, we expect domestic sales to be at least the same level as in FY22/12. Overseas, we have already received an order for about 2 billion yen (at 135 yen to the dollar) for FY23/FY24, but since it is difficult to calculate appropriate and reasonable figures for export licenses and timing of booking at this point, we are not disclosing a specific earnings forecast. As for profits, 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 logistics drone, and will also invest flexibly in overseas expansion in response to market opportunities.
Overseas	Specific target countries for overseas expansion, target sales amount, and timing	In addition to the U.S., India, Taiwan, and other countries that have a policy of not using China drone, some European, South American, and Southeast Asian countries will also be targeted. In the U.S., ACSL has already established a subsidiary in California and concluded an MOU with two distributors to sell a total of more than 100 units and aiming for sales by the end of this fiscal year, but has not disclosed the target amount because it is difficult to calculate a reasonable figure.
Overseas	What is the content of the 13.6 mn USD transaction to India?	ACSL signed MOU with Aeroarc to collaborate on projects totaling 30 mn USD (4.05 bn yen) by 2024. One of the projects in the MOU is to procure and supply ground-based robots for 13.6 mn USD (1.83 bn yen). Currently, we are in the process of export licensing procedures and risk assessment, but may not be able to sell the product depending on the outcome. (at 135 yen to the dollar)

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. Recently, due to growing security concerns, some overseas countries have explicitly banned the import or use of Chinese drones, a situation that we recognize is favorable to us.
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.

Item	Question	Answer
Sales structure	What is the sales structure in overseas market?	Depending on the situation in each country, in the U.S., a subsidiary was established with a sales function. In India, we have established a JV with a local partner company. In each of these regions, we believe that local sales and support functions are important, and we will work to deepen cooperation with local companies.
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 fables 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

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 Q2		FY22/12	FY22/12 Q2
	Actual	YoY change to same period previous year	Actual	Actual
Current assets	3,430	+7%	3,572	3,202
Cash	1,218	▲33%	1,356	1,823
Fixed assets	1,483	▲19%	1,403	1,819
Current liabilities	1,013	+260%	2,003	281
Fixed liabilities	1,447	+2,655%	34	52
Total liabilities	2,461	+637%	2,037	334
Net assets	2,452	▲48%	2,938	4,688
Total assets	4,913	▲2%	4,976	5,022

KPI Results

Indicator		FY19/03	FY20/03	FY21/03	FY21/12 (9 months)	FY22/12	FY23/12 Q2
		Actual	Actual	Actual	Actual	Actual	Actual
Sales of application-specific drones							
Small aerial photography drone (Low ASP)	Units					645	29
	Amount (100mn JPY)					9.3	0.8
Other application-specific drone (High ASP)	Units	-	-	-	-	18	6
	Amount (100mn JPY)					0.7	0.3
Solution development¹							
PoC and Development	Projects	81	112	82	41	71	32
	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	10
	Amount (100mn JPY)	3.8	3.0	1.4	0.6	1.0	0.4
Number of shipments ¹		136	128	71	25	42	15

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	2Q
Demonstration experiment² • Proof of Concept • Custom development	Sales mn JPY	27	65	102	671	1	22	22	323	14	42	67	252	16	25	103	262	5
	Num. of projects	14	22	21	55	2	11	15	54	6	14	21	34	2	12	23	28	4
Sales of platform drone³ • 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	9
	Num. of units	6	12	9	74	1	3	5	37	6	6	6	8	4	2	13	7	3
Other⁴ • 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)	30

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	2Q
Net sales mn JPY	60	143	130	943	36	42	46	495	267	133	100	952	78	130	473	429	94
Gross profit mn JPY	8	69	75	655	▲ 6	▲ 6	▲ 13	94	17	5	▲22	133	▲30	▲23	▲204	62	▲71
Gross profit ratio	14%	48%	58%	70%	▲19%	▲16%	▲28%	19%	7%	4%	▲23%	14%	▲39%	▲18%	▲43%	15%	▲76%
SG&A expense mn JPY	205	171	201	213	230	173	315	488	325	348	515	535	442	431	670	419	451
Of which R&D expenses mn JPY	66	54	76	78	60	77	129	315	153	165	285	292	228	224	424	197	182
R&D Expenses ratio to sales	109%	38%	59%	8%	167%	183%	278%	64%	57%	124%	285%	31%	290%	172%	90%	46%	192%

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	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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)	<ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Impact of the Civil Aeronautics Act, etc. on our business 	<ul style="list-style-type: none"> ▪ 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	<ul style="list-style-type: none"> ▪ Uncertainty and seasonality of revenue recognition and cost execution ▪ Need for aggressive investment in R&D 	<ul style="list-style-type: none"> ▪ 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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