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Frequently Asked Questions and Answers (March 2024)

Thank you for your continued interest in our company. The main questions from investors this month and the answers to those questions are disclosed below. This disclosure is made around the end of each month to reinforce transparency and fair disclosure. Although there may be some discrepancies in the answers from time to time, please be advised that at the time of writing, this is the most current version.

Q1.I would like to know about the positioning of SPC in the business model of the EV charging business.

In the EV charging business, it is common for the owner and operator of the equipment to be different, and the operator is generally referred to as a CPO (Charge Point Operator). The model we refer to when building our business is the CPO model, which exists among several public companies in the United States, and these operators do not own the charging ports but provide sales and operation services to the owners.

In our EV charging business, we follow the overseas CPO model, providing charging ports sales and operation services to owners.

The scheme we adopted, based on the advice of external experts, involves selling EV charging facilities not only to hotels and commercial facilities but also to SPCs (Special Purpose Companies) that own charging ports. This scheme, referred to as the "GK-TK scheme," involves the establishment of a limited liability company (GK) represented by a general incorporated association, which then solicits anonymous partnership (TK) investments.

The GK-TK scheme is commonly used in real estate securitization projects, renewable energy project financing, etc.

The government has announced that compliance with the Open Charge Point Protocol (OCPP), a common international scheme for EV chargers, will be one of the requirements for receiving subsidies in Japan.[*1] This is expected to promote the adoption of OCPP-compliant EV chargers and to reduce technical barriers when owners change operators (CPOs), thereby making it easier for owners to choose competitive operating services and accelerating the separation of ownership and operation of EV charging facilities.

(Note)
*1. Ministry of Economy, Trade and Industry "Guidelines for Promoting Charging Infrastructure Development" October 2023

Q2. I would like to know about the profitability of the EV charging business.

Considering depreciation and other costs after receiving subsidies, the breakeven point* is about 3,800 JPY in monthly charging sales per port.[*2] The number of charging ports installed by our company as of February 2024 is 2,320, with an average monthly charging sales per port of about 2,500 JPY in Q1 2024, and for those installed for over 9 months, the average monthly charging sales per port is about 6,000 JPY.[*3]

(Note)

*2. We have estimated based on the premise of procuring EV charging equipment through loans from financial institutions, directly owning the EV charging equipment, and earning charging revenue. Therefore, the main costs include property tax on depreciable assets, depreciation expense, and interest and payment fees to banks (related to bridge loans and long-term loans).
*3. Reference: EVsmart "Statistics on EV Chargers"

Q3. Please tell us about the FY23 financial performance of this SPC alone.

As for the FY23 standalone financial performance of this SPC, it is currently estimated to be an ordinary loss of about 80 millionJPY, including the recurring costs such as interest payments, in addition to the setup costs for initiating early SPC operations.[*4]

However, an improvement in profitability for this SPC is expected due to the growth in charging revenue in the future.

(Note)
*4. As stated in section 4 of the "Notice Concerning the Establishment of an External Investigation Committee and the Consideration of an Application for Extension of the Submission Deadline for the Securities Report for FY23," dated March 27, 2024, it is expected that the consolidation of this SPC's standalone financial statements into our consolidated financial statements and the effects of consolidation adjustments such as elimination of transactions within the group will result in a decrease in sales of approximately 2.2 billion JPY, an increase in operating loss of approximately 0.8 billion JPY, and an increase in ordinary loss of approximately 0.9 billion JPY. On the other hand, the 80 million JPY operating loss mentioned above refers to the estimated ordinary loss of 80 million JPY (estimated as of the current time) in this SPC's standalone financial statements. The impact amounts on our group's consolidated operating income and ordinary income disclosed on March 27 include this estimated ordinary loss of 80 million 0.8 billion JPY.

Q4. Why do SPC investors have put options?

The reason for granting a put option (the right to demand that our company or a third party designated by us purchase SPC equity interests held by the investor at a pre-defined price) is because the EV charging facilities acquired by this SPC are relatively new infrastructure assets as investment assets and involve risks. Therefore, it provides an appropriate means of risk hedging to investors, resulting in competitive investment opportunities.

Similarly, there are cases where a put option is granted to investors of unconsolidated SPCs utilized by listed companies engaged in renewable energy generation business.

Q5. The earnings forecast for FY24 has been revised to undecided, but please explain as much as possible.

We believe that the accounting treatment decision for this SPC does not directly affect the Platform business and Data business. In the EV Charging business, we plan to continue aggressively installing charging ports and improving utilization. However, we will disclose our forecast as soon as our revised plan is determined.

Additionally, the application for the additional subsidies for FY24 has been completed as planned by April 1, 2024.

Q6. It mentions "doubts about the accounting treatment of transactions in the EV charging business separate from this SPC scheme." Does this raise suspicion on all revenues related to EV charging?

We apologize for any concern caused by the wording in our disclosure documents.

As mentioned, there is a possibility of impact on the securities report for FY22. In the fourth quarter of FY22, we generated 187 million JPY sales of EV charging equipment to a third party not involving this SPC scheme. We acknowledge that the sales to a third party are subject to the current investigation.

Q7. When will the results of the investigation committee come out?

At this moment, an exact schedule has not been determined. Our top priority is to submit the securities report by the extended deadline of June 28, 2024, and we will fully cooperate to ensure that the investigation by the external review committee is conducted swiftly.

Q8. What are your thoughts on the significant drop in stock prices?

We deeply apologize to our shareholders and all related parties for the great inconvenience and concern caused. We will promptly address the investigation committee, submit the securities report by the deadline, and review the full-year plan for FY24, striving for a swift restoration of trust.

Q9. There's a point being made that there's also the possibility of delisting. What do you think?

If it violates the delisting criteria set by the Tokyo Stock Exchange, it will be delisted. Those related to the delay in filing the securities report are stated as "if the securities report or quarterly report with the audit report or quarterly review report attached is not submitted within one month after the statutory submission deadline (or within eight days after the period for which the extension of the submission deadline has been approved) [*5]."

Our company has received approval to extend the submission deadline for the securities report until June 28, 2024, as of April 1, 2024. Our company prioritizes submitting the securities report by the extended submission date of June 28, 2024, and intends to submit within the submission deadline by fully cooperating to ensure that the external investigation committee's investigation is conducted swiftly.

(Note)
*5. Refer to the "Overview of Delisting Criteria" of the Tokyo Stock Exchange

Q10. I believe there was guidance on subsidies related to EV charging infrastructure from the Ministry of Economy, Trade and Industry for this fiscal year. What are the key points this time?

From this fiscal year, a total of three rounds of solicitations ((1) Additional solicitation for FY23, (2) First period for FY24, (3) Second period for FY24) will be conducted with the aim of smoothing out the implementation period of projects. It has been decided to continue the method introduced in the 'Preliminary Allocation' for FY23, which determines the acceptance cases based on certain criteria.

The budget allocation is as follows: (1) 10.5 billion JPY, (2) 22 billion JPY, and (3) 3.5 billion JPY. Furthermore, the budget framework for Level 2 charging is divided into: (1) Home charging: 2.5 billion JPY, Destination charging: 2.0 billion JPY; (2) Home charging: 4.5 billion JPY, Destination charging: 4.5 billion JPY; (3) Home charging: 1.0 billion JPY, Destination charging: 1.5 billion JPY.

The schedule estimates are as follows: (1) Application solicitation begins in March; (2) Application acceptance starts in May to June; (3) Application solicitation starts in August to mid-September. Additionally, the deadlines for performance reporting after construction completion are staggered according to the start date of each application period.

In terms of the impact on our company, while the subsidy application schedule has been standardized, the bias towards installations in the second half of the year remains unchanged.
Furthermore, for details on changes in the specific application requirements, please refer to the announcement by the Ministry of Economy, Trade and Industry titled '**Enhancement of Efforts for Charging Infrastructure Development and Future Execution of Subsidies**', which can be accessed via the following URL: https://www.meti.go.jp/policy/mono_info_service/mono/automobile/cev/r6bosyuu_hojokingaiyou.pdf .

Q11. Recent news has been following a trend of setbacks for EVs, including the withdrawal of EV development by renowned American companies and policy directions in the presidential election campaigns that could be seen as headwinds for EVs. Does this suggest that EV adoption will not continue to spread further in the future? While this might not be welcome news for the charge point operator, what are your thoughts on this?

Since the beginning of 2024, there have been reports about the withdrawal of EV development projects by major companies in the US, as well as discussions surrounding future EV and decarbonization policies in the US leading up to the presidential election later this year. While direct impacts are not confirmed at this point, we are closely monitoring news and discussions related to the EV sector, both domestically and internationally, including their influence and market reactions.

However, as part of the Japanese government's ongoing policy to accelerate the EV shift, a record budget of 129.1 billion JPY (Revised Budget for FY24) has been allocated for EV/PHEV/FCV purchase subsidies, marking an increase of over 40% from the 90 billion JPY budget for FY23 (70 billion JPY in the Revised Budget for FY22 and 20 billion JPY in the Initial Budget for FY23). It is expected that the adoption of EVs will significantly increase compared to the previous year.

Additionally, with the subsidy budget for charging port deployment more than doubling from the previous year, there is evidence of annual improvement in the domestic charging infrastructure environment towards 2030.
We anticipate that this will lead to an enhanced availability of charging ports in the long term, further supported by the strengthening of domestic automakers' EV lineups.

Q12. There has been news in Japan that Nissan and Honda have begun considering a business partnership in the EV field. What are your thoughts on this matter?

The collaboration between Nissan and Honda in the EV sector is expected to bring about economies of scale and cost reduction benefits, leading to increased competitiveness in the pricing of domestic EVs. This is anticipated to be positive news for consumers and contribute to the long-term improvement of the ratio of EVs and PHEVs in Japan's new car sales.