



# Financial Results Material for FY24/12 Q2

**ACSL Ltd (TYO: 6232)**  
**August 13, 2024**

CONFIDENTIAL  
This materials should not be used without prior consent from ACSL Ltd.

## Company outline

<b>Corporate Name</b>	ACSL Ltd.
<b>Representative</b>	Satoshi Washiya (CEO and Representative Director)
<b>Established</b>	November 2013
<b>Location</b>	3-6-4 Rinkai-cho, Edogawa-ku, Tokyo Hulic Kasai Rinkai Bldg. 2F
<b>No. of Employee<sup>2</sup></b>	59 (as of June 2024)
<b>Description of Business</b>	Manufacture and sale of commercial drones and provision of solution services for unmanned and IoT applications using autonomous control technology

## At a glance<sup>1</sup>

**Ratio of engineers**

Approx. **68**%

**# of Non-Japanese**

Approx. **22**%

**Client**

**232**  
companies

1: Percentage of engineers and number of foreign employees are as of March, 2024. The number of customers is the total number of customers from FY19/03 to FY24/12 Q2. All figures do not include group companies

2: Full time employee. Not including group companies.

A large, vertical image on the left side of the slide shows a drone flying over a range of misty, blue-toned mountains. The drone is in the center of the image, flying towards the right. The background is a clear, light blue sky.

**1. Market / Mission / Growth strategy**

2. FY23/12 Q2 results and highlights

3. 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

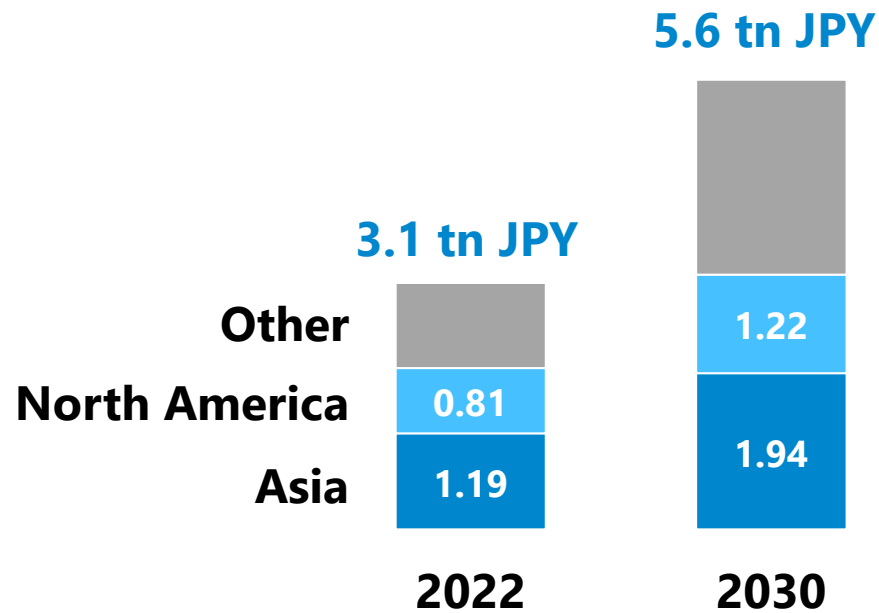
**03**

## **Decarbonization EV**

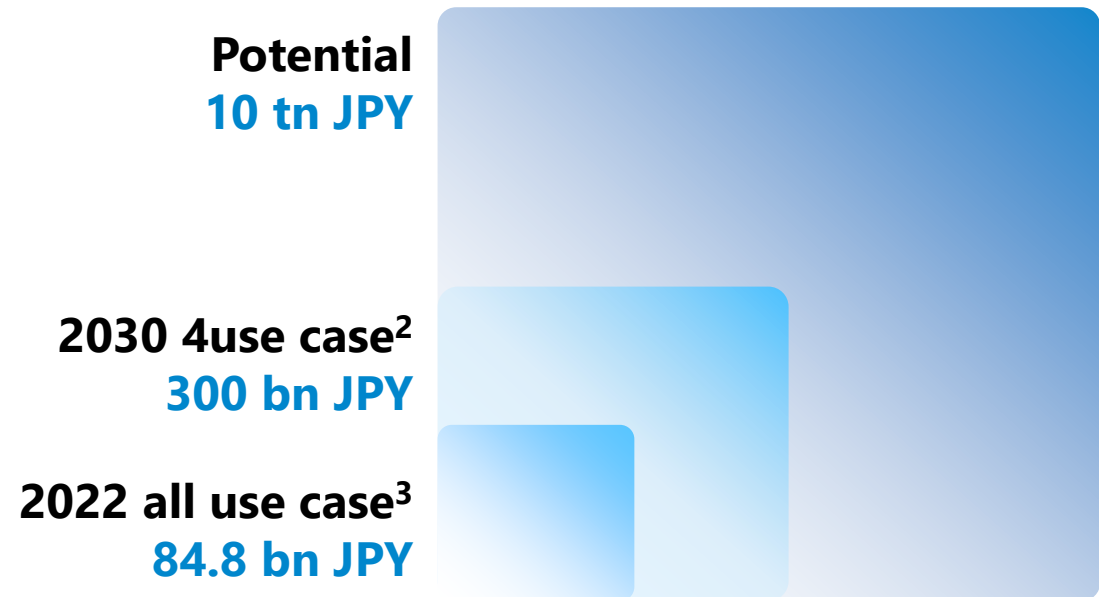
Drones recognized as a tool for decarbonation and EV. Drones are considered to work together with trucks in logistics field

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

### Global drone market<sup>1</sup>



### Japan drone hardware market



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





2: 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"

Ministry of Economy, Trade and Industry/Digital Architecture and Design Center (DADC) "Autonomous Mobile Robot Architecture Design Report"

3: Impress Research Institute "Drone Business Report 2023"



## In many countries, Chinese drones are being replaced in industrial and government area

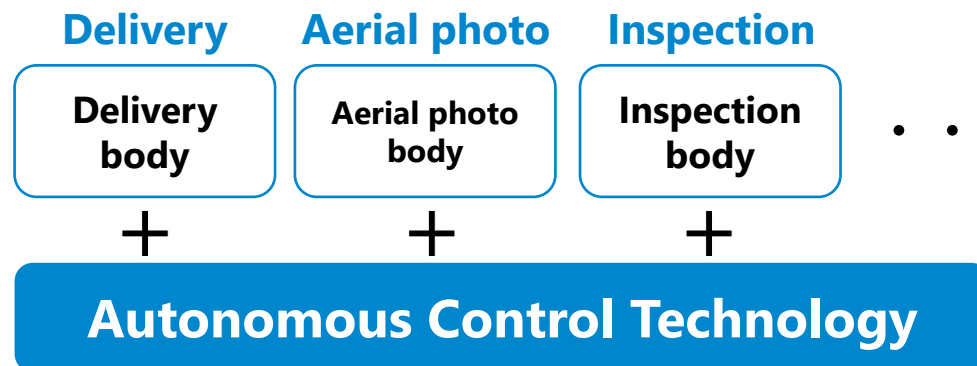
	 <b>Japan</b>	 <b>US</b>	<span style="color: #00AEEF;">■</span> Our Expansion <b>Other</b>
<b>consumers</b>	Mainly hobby drones made in China.	Mainly hobby drones made in China. U.S.-made drones are also deployed.	
<b>Industry</b>			
<b>Aerial photography</b>	Foreign products (mainly made in China) are the mainstream. Replacement with domestic products as a security measure is gradual.	Chinese-made drone were used, but "Non-China" is proceeding. U.S. and French manufacturers have not become mainstream, and ACSL receive high evaluation	 <b>India</b> A market is in the process of being formed. Import of foreign-made drones is prohibited, and Indian manufacturers exist but on a small scale.
<b>Delivery</b>	ACSL has the most experience in Japan; only ACSL has experience in Lv4; most Lv3 and Lv3.5 flights are ACSL aircraft	US-made VTOL (fixed-wing) aircraft predominate for long-distance flights.	 <b>Taiwan</b> As in the U.S., the trend is toward de-China. Local companies exist, but they are small, and Western manufacturers are less focused.
<b>government</b>	Foreign-made drones (mainly made in China) are the mainstream. ACSL has recently been used by the Ministry of Defense and other organizations.	Chinese drones are being eliminated at the regulatory level. U.S. and French-made drone have not been mainstream, and ACSL plans to expand in the future.	
<b>Millitary</b>	Included in the above for government	U.S. and French manufacturers are most focused	

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

**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



# Select and Focus : Target domain with strong competitiveness

## Conduct immediate focus on domains with strong competitiveness and profitability

	<b>Current activity</b>	<b>Competitiveness</b>	<b>Focus</b>
<b>Domain 1</b> <b>Aerial photo</b> 	<b>SOTEN</b> (launched) <b>Development of next gen aerial photo drone</b> (SBIR <sup>1</sup> ending 25/12)	<b>Drone development that meets economic security demand</b> <b>One of the very few mass manufacturer in Japan for aerial photo drone</b>	<b>Japan : Defense and Disaster (public agency)</b> <b>Overseas : Focus on US and Taiwan that has shown strong China ban. Start with inspection and expand to defense and disaster</b>
<b>Domain 2</b> <b>Delivery</b> 	<b>Partnership with Japan Post</b> <b>Development of Postal delivery drone</b> <b>Continuous trials for social implementation</b>	<b>High technical capability that achieved the only Level 4 type certificate</b> <b>Abundant record of successful delivery trials in Japan</b> <b>In-depth technical and operational team setup with Japan Post</b>	<b>Japan : Continue development with Japan Post, and establish operations for social implementation</b>

1: Small Business Innovation Research program. Anticipated receipt of up to 2.6 bn JPY in subsidies for the period from December 2023 to December 2025 for the development of new high-performance small aerial photography drones

A close-up, low-angle shot of a drone's camera and gimbal system. The camera is mounted on a gimbal, and the drone's body is visible in the background. The lighting is dramatic, with strong highlights and deep shadows, creating a sense of depth and focus on the camera lens.

**1. Market / Mission / Growth strategy**

**2. FY23/12 Q2 results and highlights**

**3. Appendix**

## Summary

Sales are strong, and 82% of FY24 target has been ordered. India large project was booked in Q2

Marginal profit margin will remain high. R&D expenses, excluding SBIR, were reduced from YoY

## Sales

Sales **2.05** bn JPY      Sales + Backlog **2.75** bn JPY

YoY +291%

A large project in India was recorded in 2Q. Total sales and order backlog are 82% of the annual target.

## Profit rate

Gross profit rate

**5%**

YoY +6.7pt

Marginal profit margin without India project remained high. Gross margin improved YoY.

Marginal profit rate<sup>1</sup>

**58%**

YoY ±0pt

## Operating income

**-1.02** bn JPY

YoY -145 mn JPY

SBIR R&D expenses were recorded. Cost reduction effects of business reforms have been partially realized from Q2.

1: Excluding India large project

# FY24 financial plan and Q2 Results Summary (Consolidated)



## FY24 Q2 sales and profit outlook is favorable relative to the annual target

[mn JPY]	FY24 Numerical Plan				FY24/12 Q2 Results			
	After transformation	India Large projects	SBIR (Gov. Project) <sup>1</sup>	Total	After transformation	India Large projects	SBIR (Gov. Project) <sup>1</sup>	Total
<b>Net sales</b>	<b>1,500</b>	<b>+1,840</b>	<b>-</b>	<b>3,340</b>	<b>349</b>	<b>+1,700</b>	<b>-</b>	<b>2,050</b>
<b>(Incl. Backlog)</b>					<b>(1,054)</b>			<b>(2,755)</b>
<b>Gross profit</b>	<b>70</b>	<b>+40</b>	<b>-</b>	<b>110</b>	<b>▲16</b>	<b>+117</b>	<b>-</b>	<b>100</b>
<b>Gross profit ratio</b>	<b>5%</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>▲5%</b>	<b>-</b>	<b>-</b>	<b>5%</b>
<b>SG&amp;A</b>	<b>1,570</b>	<b>-</b>	<b>+1,600</b>	<b>3,170</b>	<b>863</b>	<b>-</b>	<b>+263</b>	<b>1,126</b>
<b>(inc. R&amp;D, US subsidiary)</b>								
<b>Operating profit</b>	<b>▲1,500</b>	<b>+40</b>	<b>▲1,600</b>	<b>▲3,060</b>	<b>▲879</b>	<b>+117</b>	<b>▲263</b>	<b>▲1,026</b>
<b>Ordinary profit</b>	<b>▲1,500</b>		<b>+1,200</b>	<b>▲1,860</b>	<b>▲963</b>		<b>-</b>	<b>▲963</b>
<b>Net Profit</b>	<b>▲1,575</b>		<b>(Non-operating income)</b>	<b>▲1,935</b>	<b>▲1,010</b>		<b>(Non-operating income)</b>	<b>▲1,010</b>

1: Income to be booked for non-operating income as a subsidy at the timing when the expenditure amount is confirmed. The expenditure from FY24/Q1 to FY24/Q3 is planned to be booked in FY24/12. Expenditures from FY24/Q4 to be booked after 2025. As of Q2 end subsidy is not booked and expected to book in the future.

# FY24/12 Q2 Results compared to previous year

**Sales and backlogs increased YoY.**

**Operating income decreased due to SBIR R&D expenses and expenses for U.S.**

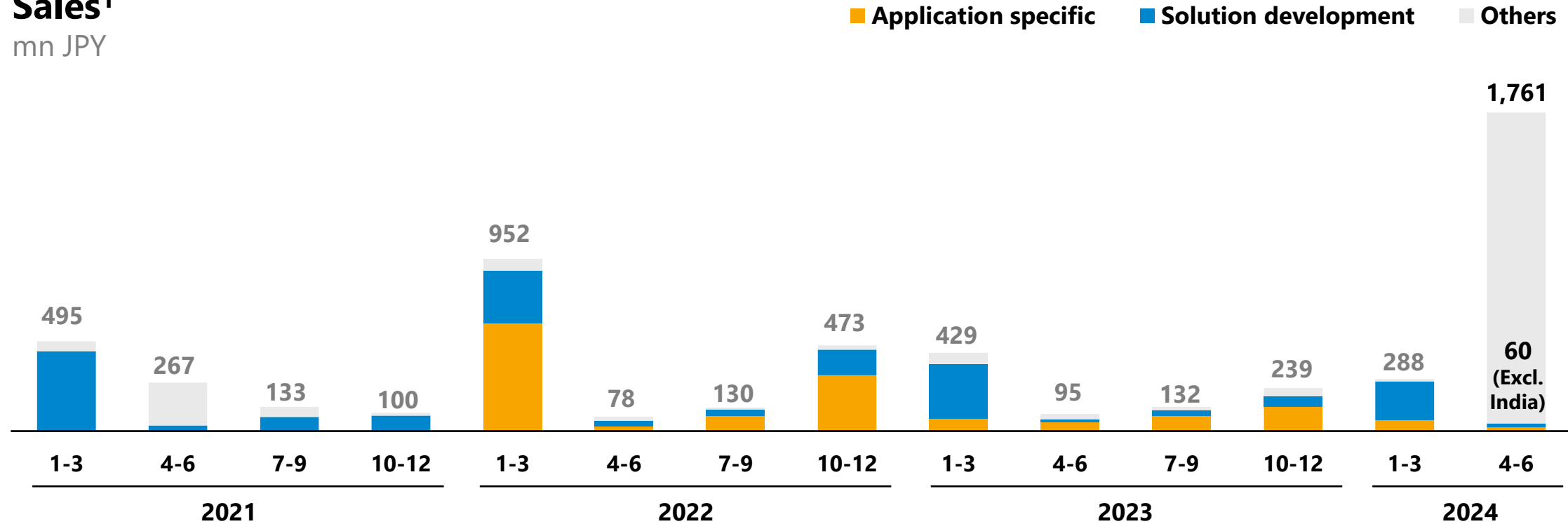
[mn JPY]	FY24/12 Q2 Results	FY23/12 Q2	FY23/12 Annual	YoY	summary
<b>Net sales</b>	2,050	524	896	+1,525	<ul style="list-style-type: none"> <li>■ Increased YoY due to India large project. Large projects are weighted toward the second half of the year.</li> <li>■ The backlog for the domestic market was 658 mn JPY, up 190% (+431 mn JPY)</li> </ul>
<b>Gross profit</b>	100	▲9	▲235	+109	<ul style="list-style-type: none"> <li>■ Marginal profit margin remained high at 58% in existing business excluding India project</li> </ul>
<b>Gross profit ratio</b>	5%	▲2%	▲26%	+7pt	<ul style="list-style-type: none"> <li>■ Gross profit margin increased YoY, partly due to the contribution of the India project</li> </ul>
<b>SG&amp;A (inc. R&amp;D, US subsidiary)</b>	1,126	871	1,836	255 (incl. SBIR 263)	<ul style="list-style-type: none"> <li>■ SG&amp;A increased by 255 mn JPY YoY. Of this amount, 263 mn JPY was R&amp;D for SBIR. Excluding SBIR, R&amp;D decreased YoY.</li> </ul>
<b>Operating income</b>	▲1,026	▲880	▲2,071	▲145	<ul style="list-style-type: none"> <li>■ Deteriorated YoY due to SBIR R&amp;D expenses and SG&amp;A expenses of U.S. subsidiary despite increase in Sales</li> </ul>
<b>net income</b>	▲1,009	▲935	▲2,544	▲74	<ul style="list-style-type: none"> <li>■ Special severance payments for voluntary retirement program</li> </ul>



# Quarterly Net Sales

## Increased significantly YoY due to India large project

**Sales<sup>1</sup>**  
mn JPY



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

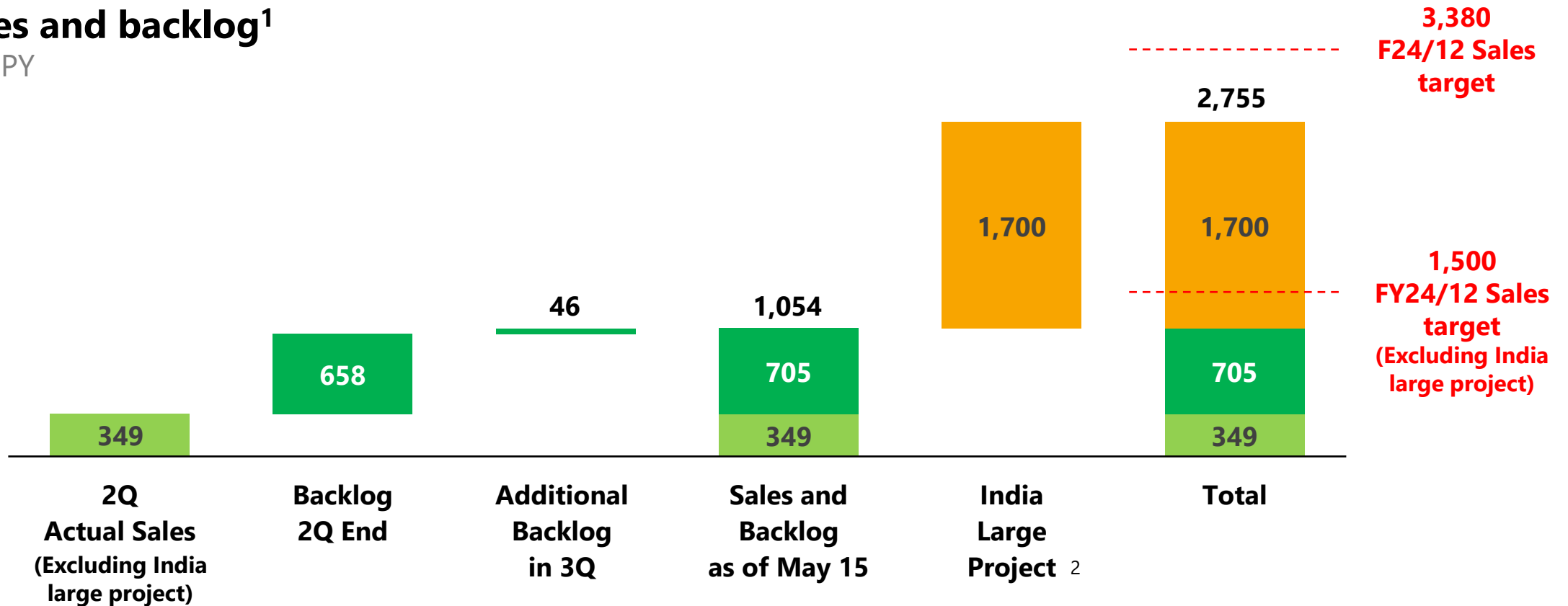
# FY24/12 2Q End Backlog



**Sales and order backlog total (excluding India) is 1.05 billion yen against sales target of 1.5 billion yen**

## Sales and backlog<sup>1</sup>

mn JPY



1: Backlog is the total value of orders received as of August 13, 2024 (the date this report was released)

**In the U.S., sales and marketing activities are in full swing and have generated significant interest. Booked India large project**

## U.S. Marketing activities in full swing

- **Obtained export license** in 2023 and started **sales to end-users** through the U.S. distributor
- **Signed MOUs with a total of 5 companies**, and started expansion in the U.S. through 8 distributors
- SOTEN exhibits at XPONENTIAL 2024, the world's largest drone exhibition in the U.S.
- Highly evaluated in the U.S., where Non-China is progressing. SOTEN's, **NDAA<sup>1</sup> compliance and competitive pricing** have earned **high interest and expectations from equipment inspection companies in the U.S.**
- A local infrastructure inspection company, aiming to move away from China, **achieved better results with SOTEN than other drones in a comparison**

## India large project

- **Completed inspection by local company and booked in Q2**

## Taiwan sales structure established

- **Continue to collaborate in product sales and sales expansion with a local distributor**

1: NDAA (National Defense Authorization Act) is a law concerning the defense budget that is introduced annually in the U.S. Congress. It governs U.S. defense policy and establishes rules that prevent the U.S. from hiring companies that could be immediately converted to a particular country's military or weapons industry.

**The movement away from Chinese drones in the U.S. is gaining momentum, increasing demand for NDAA<sup>1</sup> compliant drones.**

## Changes in Regulations on Drones in the U.S.

- 2020** DJI added to **entity** list as product may affect U.S. national security
- 2021** Executive Order 13981 signed, aimed at **preventing the procurement of drones manufactured by foreign adversaries** or containing critical electronic components
- 2023** **Ban on certain Chinese semiconductor products** in the supply chain of government officials as NDAA
- 2024** **Countering CCP Drones Act introduced and passed** in the U.S. House of Representatives

## Customer Trends in the U.S.

- U.S. electric utilities and others have **invested in drone-based workflows** to inspect power lines, monitor substations, and assess critical infrastructure.
- Potential for tighter regulations and growing security concerns **drive companies to rethink use of Chinese drones and transition to NDAA-compliant drones**
- When evaluating these drones, a key consideration is whether **further improvements can be made while maintaining the efficiency of existing drone workflows**

1: The NDAA (National Defense Authorization Act) is a law that governs U.S. national defense policy and establishes rules that prevent companies from being employed in the U.S. that could be quickly converted to the military or arms industry of a particular country.

**Started sales of SOTEN in the US from Dec 2023. Strategic MOU signed in infrastructure companies. Expanding distributor and dealer network.**

## MOU signed in the US



**Distributor** leading the US drone market



**Drone solution provider** to infrastructure companies



**Drone service provider** to mining and infrastructure companies



**Largest utility company in Missouri.** Listed at Fortune 500.



**Global agri and infra company** with footprint in 21 countries

## Distributor and dealer network in the US

### Expanding US with wide coverage

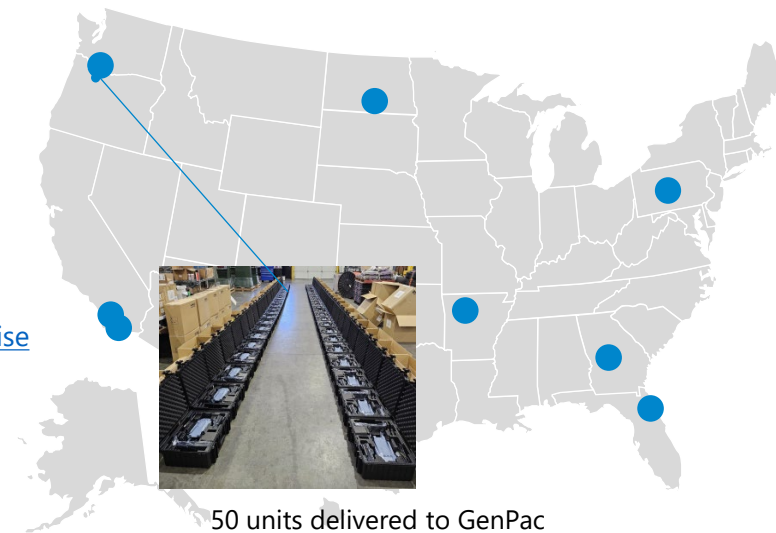
[Blue Skies Drones](#)  
Washington

[General Pacific](#)  
Oregon

[Frontier Precision](#)  
North Dakota

[Advexure Enterprise](#)  
California

[DronesMadeEasy](#)  
California



[Volatus Drones](#)  
New York

[Unmanned Vehicle Technologies](#)  
Arkansas

[Gresco Utility Supply](#)  
Georgia

[Frontier Precision](#)  
Florida

50 units delivered to GenPac

# TENSO, a smart controller compliant with NDAA<sup>1</sup>, launched in the U.S.



## NDAA compliance increases the credibility and competitiveness of ACSL and products in the U.S.

### Background in the U.S.

- DJI, a Chinese drone manufacturer, will be designated as a "China Military Enterprise" by the U.S. Department of Defense starting in 2020.
- In 2022, the NDAA bans government procurement of Russian and Chinese drones.<sup>2</sup> Movement toward elimination of Chinese-made products accelerates.

### SOTEN and TENS0 in the U.S.

- SOTEN has been in operation throughout the U.S. and has earned high praise and interest from facility inspection companies for its NDAA compliance and competitive pricing.
- TENS0 responds quickly to the product update needs of our major U.S. client<sup>3</sup> and develops
- Advantages of TENS0
  - NDAA compliant, secure
  - Ease of use, high efficiency and performance
  - IP43, high dustproof and waterproof
  - Specialized for aerial photography drone



SOTEN



Smart Controller "TENS0"

1: National Defense Authorization Act

2: <https://www.congress.gov/bill/116th-congress/senate-bill/2502> (American Security Drone Act of 2020)

3: ACSL, Inc. has worked with large Fortune 500 utility companies such as Missouri-based Ameren Corporation, a provider of electric and gas services, and New York Power Authority (NYPA), as well as Texas-based Firmatek, LLC, a nationwide provider of drone services for mining and critical infrastructure inspection.

# Applied for Type 1 Type Certification for delivery drone

## Work toward accelerating social implementation of drones in the logistics field with Japan Post

### Japan Post and ACSL Initiatives

- In June 2021, ACSL signed a **business and capital alliance agreement** with **Japan Post Corporation and Japan Post Capital Corporation** to develop a drone dedicated to logistics.
- Aiming to resolve the **challenges facing social infrastructure** in terms of labor shortages, aging population, and rapid increase in workload
- In March 2023, **obtained Japan's first Type 1 Type Certification for Level 4 (unaided flight in a manned zone)**.
- In March 2024, **trial delivery at "Level 3.5<sup>1</sup>" in Toyooka City, Hyogo Prefecture**

### Overview of new aircraft

- **Emphasis on design for ease of logistics operations and social acceptability**
- **Luggage is easily stowed from the top of the fuselage and automatically detached from the bottom of the fuselage upon arrival**
- **Increased payload weight (5.0 kg, equivalent to 100 size) and maximum flight distance (35 km) compared to conventional models**



PF4-CAT3

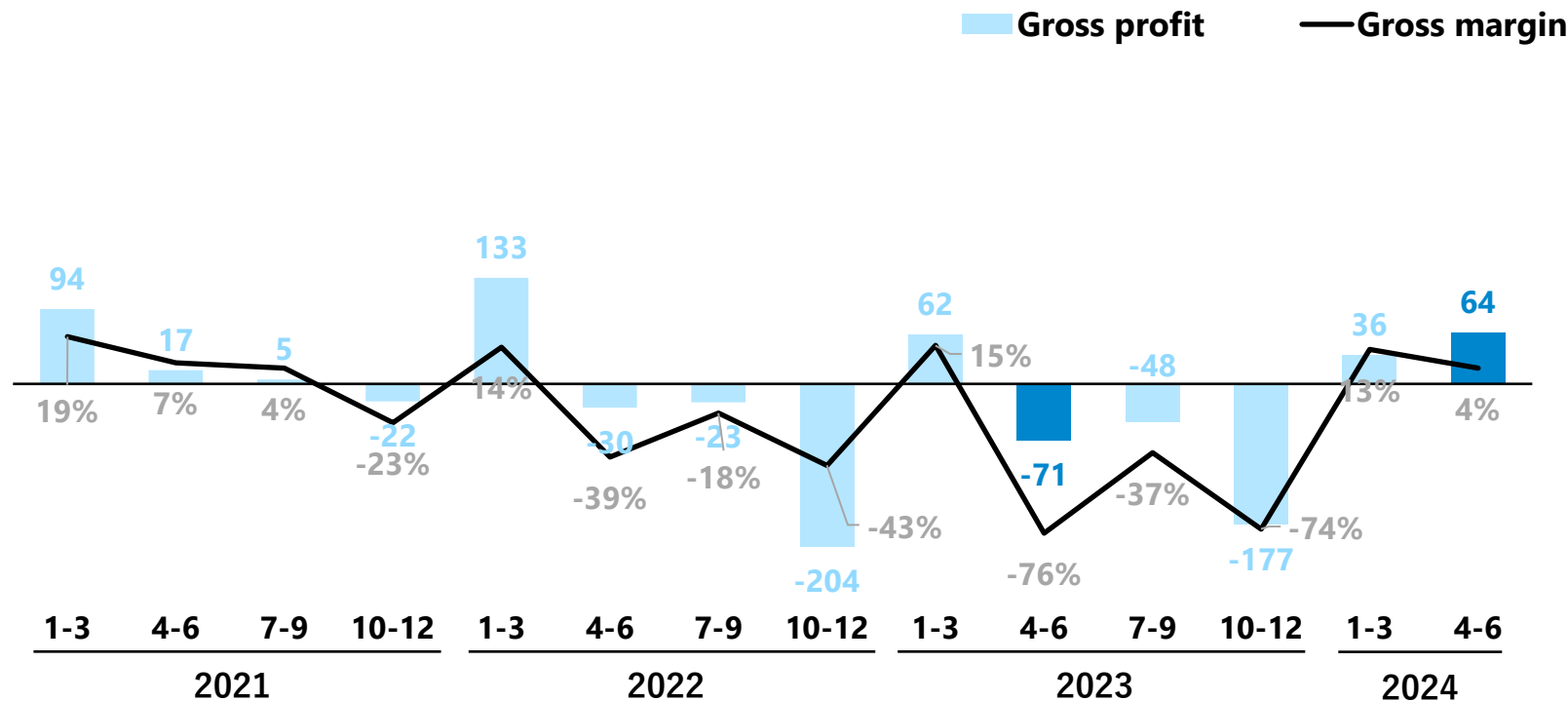
1: Level 3.5 flight eliminates the entry control measures (placement of assistants and signs) required for Level 3 ("unassisted visual flight in an unmanned zone") on the condition that digital technology (onboard cameras), unmanned aircraft operator proficiency certification, and insurance coverage are used, Flight methods that facilitate the crossing of roads, railroads, etc.

# Gross Profit and Gross Margin

**Gross margin improved from Q4 of the previous fiscal year, and gross profit became positive. Gross profit and gross margin improved YoY**

## Gross Profit and Gross Margin<sup>1</sup>

mn JPY



- Gross profit margin improved from Q4 of the previous fiscal year, and gross profit posted a positive result
- YoY, gross profit increased and gross margin improved to positive. Including one-time decrease factor in
- FY23/12 Q4 due to inventory write-down (140 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



# Marginal profit ratio by segments<sup>1</sup>

**Marginal profit ratio SOTEN maintained about 40% and Solution Development kept 60% or more**

		<u>FY22/12 Full Year</u>	<u>FY23/12 Full Year</u>	<u>FY24/12 Q2 Results</u>
<b>SOTEN</b> (Aerial photography)	<b>Sales (100 mn JPY)</b>	<b>9.3</b>	<b>2.0</b>	<b>0.6</b>
	<b># of drones (units)</b>	<b>645</b>	<b>101</b>	<b>39</b>
	<b>Marginal profit ratio (%)</b>	<b>20</b>	<b>46</b>	<b>40</b>
<b>Solution Development</b> (Proof-of-concepts trials, sales of prototype drone)	<b>Sales (100 mn JPY)</b>	<b>5.0</b>	<b>3.3</b>	<b>2.3</b>
	<b>Marginal profit ratio (%)</b>	<b>54</b>	<b>61</b>	<b>65</b>

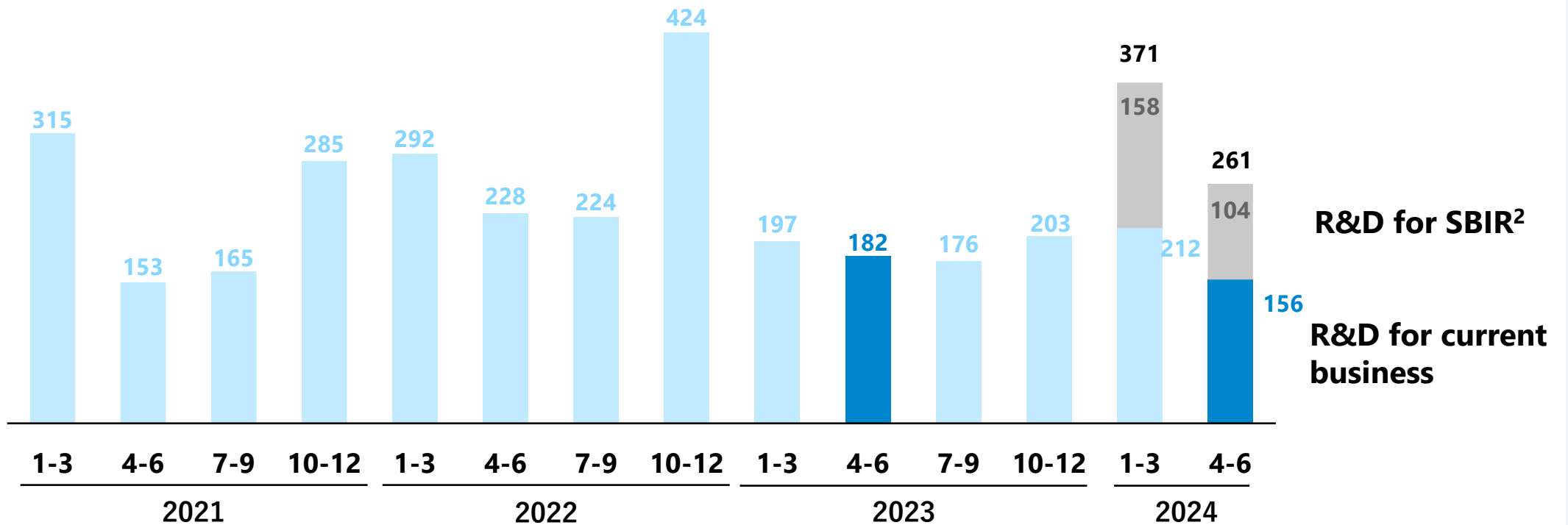
1: Marginal profit by product is defined as net sales minus variable costs; for SOTEN and aircraft sales, it is defined as net sales minus material costs; and for demonstration projects, it is defined as profit minus direct subcontracting costs. Gross profit is defined as marginal profit less labor and manufacturing costs.

# R&D expense

**Overall increase due to R&D expenses related to SBIR<sup>2</sup>.  
R&D for current business decreased YoY**

## R&D expense<sup>1</sup>

mn JPY


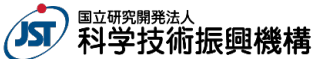



1: Fiscal year ending in March until FY21/3. FY21/12 is irregular with 9 months between 21/04~21/12. FY22 onward is fiscal year ending December

2: Small Business Innovation Research program. Anticipated receipt of up to 2.6 bn JPY in subsidies for the period from December 2023 to December 2025 for the development of new high-performance small aerial photography drones

# Awarded 3 national projects for technical development

**Award SBIR to develop next generation of aerial photo drone with budget of 2.6bn JPY. Additional 1bn JPY and 100 mn JPY by taking part in K program.**

	Project Summary	ACSL Role	Period / Value
 <p><b>SBIR</b> (Small Business Innovation Research program)</p>	<p>A large-scale technology demonstration project to promote research and development by <b>small and medium-sized enterprises</b></p>	<ul style="list-style-type: none"> <li>■ <b>Development of a new high-performance compact aerial photography drone</b> that takes economic security and security into consideration</li> <li>■ Utilizing the knowledge gained through the development of SOTEN, we will respond to the <b>demand for small aerial photography drones in Japan and overseas.</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Period :</b> Dec 2023 ~Dec 2025</li> <li>■ <b>Subsidy :</b> <b>Max 2.6 bn JPY</b></li> </ul>
 <p><b>K Program</b> (Economic security important technology development program)</p>	<p>Developing <b>cutting-edge and important technologies that are essential for Japan</b> to maintain a firm position in the international community</p>	<ul style="list-style-type: none"> <li>■ <b>Research and development of control technology and system construction</b> that can realize autonomous group flight in harsh environments</li> <li>■ <b>Development of technology for multiple drones to estimate and understand their own spatial position</b> and share</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Period :</b> Apr 2024 ~Mar 2028</li> <li>■ <b>R&amp;D subsidy :</b> <b>Max 1 bn JPY<sup>2</sup></b></li> </ul>
 <p><b>K Program</b></p>	<p>Same as above</p>	<ul style="list-style-type: none"> <li>■ <b>Study for hardware development of small drone with autonomous and distributed control functions</b></li> <li>■ <b>Analysis of existing small drone products and research and development trends</b> as a survey of advanced technologies in Japan and overseas to <b>define the direction of competitive drone development</b></li> </ul>	<ul style="list-style-type: none"> <li>■ <b>Period :</b> Apr 2024 ~Mar 2028</li> <li>■ <b>project scale :</b> <b>Max 100 mn JPY</b></li> </ul>

1: Multiple drones flying simultaneously and in collaboration  
 2: Value will be determined based on discussion with funding parties

**1. Market / Mission / Growth strategy**

**2. FY23/12 Q2 results and highlights**

**3. Appendix**



Item	Question	Answer
<b>Macro</b>	Will the global expansion of military demand have an 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.
<b>Macro</b>	Will semiconductor shortage continue to have impact this year?	In 2022, the shortage of semiconductors and price hikes will continue to have a negative impact of about 600 mn JPY on gross profit. The marginal profit margin recovered in 2023 as a result of measures such as design changes.
<b>Domestic market</b>	Future Prospects for Working with the Ministry of Defense	In addition to the 370 million yen order for SOTEN from the Defense Acquisition Agency, we have also been selected as a drone for aerial photography by the Air Self-Defense Force of the Ministry of Defense. In addition, ACSL became the first drone manufacturer to be approved as a regular member of the Japan Defense Equipment Industries Association (JDAA). The Ministry of Defense is highly interested in economic security and security measures in Japan, and we recognize that this is an area where we can take advantage of our strengths, and we will continue to focus on this area in the future.
<b>Overseas</b>	The progress in US and the specific timing of sales, future prospect	We have already signed MOUs with 5 companies including distributors and end users. We plan to expand sales through 8 sales agents. We obtained export permission in November 2023 and sold 50 units to distributors in December 2023. Sales from distributors have already been completed, and discussions are underway regarding sales in 2024. Sales are expected in the second half of 2024 based on tighter regulations on Chinese-made drones and the exhibition to be held in September.
<b>Overseas</b>	The progress in Taiwan and the specific timing of sales, future prospect	We have signed a dealership contract with a local sales agent. We have already conducted demos and other activities locally and have received evaluations. We are currently applying for export permission for product sales and discussing sales plan with the distributor
<b>Overseas</b>	The content of the large project in India	We sold ground running robots for 1.7 billion yen from an Indian partner company. We completed inspection in Q2 and booked revenue of backlog. Profitability was higher than planned.

Item	Question	Answer
<b>Outlook</b>	Progress against this year's plan is as follows	Excluding the large project in India, sales are expected to be 1.5 billion yen, while the backlog is over 1 billion yen at the time of this announcement. As for costs, we expect to realize the effects of the structural reforms from Q2.
<b>Outlook</b>	What is the composition of sales, and the overseas ratio for FY24?	SOTEN sales are the main source of 1.5 billion yen in sales, excluding the large project in India, in addition to domestic demonstration tests in the logistics field, etc. and sales of existing aircraft. The Defense Equipment Agency delivery announced in March 2012 has already been factored into the plan. Although domestic sales are the main source of overseas sales, sales in the U.S. are expected to increase.
<b>Outlook</b>	Is there a possibility that sales and development cannot be done due to cost reduction	We aim to optimize resources by focusing on two areas (small aerial photography, logistics). Even after implementing redundancy plan, we expect to secure the personnel to achieve the current sales plan. We design incentives and career paths so that core personnel do not leave.
<b>Competitive environment</b>	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.
<b>Competitive environment</b>	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
<b>Sales structure</b>	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.
<b>Risk</b>	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.
<b>Manufacturing System</b>	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.
<b>Performance</b>	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.

# Balance Sheet

Mn JPY	FY24/12 Q2		FY23/12 Q2	FY23/12
	Actual	YoY change to same period previous year	Actual	Actual
Current assets	5,183	+ 51%	3,430	4,203
Cash	1,770	+ 45%	1,218	1,499
Fixed assets	997	▲33%	1,483	891
Current liabilities	2,228	+ 120%	1,013	1,603
Fixed liabilities	2,412	+ 67%	1,447	1,227
Total liabilities	4,641	+ 89%	2,461	2,830
Net assets	1,539	▲37%	2,452	2,264
Total assets	6,180	+ 26%	4,913	5,094



# Major financial items by year

mn JPY		Accounting Period <sup>1</sup>	FY19/03	FY20/03	FY21/03	FY21/12	FY22/12	FY23/12	FY24/12 2Q YTD
Sales			807	1,278	620	501	1,635	896	2,050
Small aerial photography drone (SOTEN)	Amount		-	-	-	-	939	206	66
	Units						645	101	39
Other application-specific drone	Amount		-	-	-	-	73	132	13
	Units						18	26	1
PoC and Development	Amount		293	866	370	124	397	337	215
	# of project		81	112	82	41	71	52	22
Sales of Platform/Evaluation drone	Amount		384	304	145	67	103	67	23
	Units		106	101	46	18	27	15	4
Other	Amount		129	107	105	308	120	152	1,731
Gross profit			403	808	68	0	▲124	▲235	100
Gross margin			50%	63%	11%	0%	▲8%	▲26%	5%
SG&A expense			733	792	1,207	1,189	2,079	1,836	1,126
R&D expense (Out of SG&A)			366	275	583	604	1,168	759	632
Operating profit			▲330	15	▲1,139	▲1,188	▲2,203	▲2,071	▲1,026

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

# Major financial items by quarter

mn JPY		Accounting Period <sup>1</sup>		FY21/03				FY21/12			FY22/12				FY23/12				FY24/12	
Quarterly results		1Q	2Q	3Q	4Q	1Q	2Q	3Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q		
<b>Sales</b>		36	42	46	495	267	133	100	952	78	130	473	429	94	132	239	288	1,761		
<b>Small aerial photography drone (SOTEN)</b>	<b>Amount</b>								590	21	25	301	33	49	37	86	46	19		
	<b>Units</b>	-				-			475	6	7	157	13	16	13	59	31	8		
<b>Other application-specific drone</b>	<b>Amount</b>								3	2	60	7	34	0	46	50	12	0		
	<b>Units</b>	-				-			1	2	15	-	6	-	10	10	1	0		
<b>PoC and Development</b>	<b>Amount</b>	1	22	22	323	14	42	67	252	16	25	103	262	5	28	40	192	22		
	<b># of project</b>	2	11	15	54	6	14	21	34	2	12	23	28	4	10	10	18	4		
<b>Sales of Platform/Evaluation drone</b>	<b>Amount</b>	4	10	13	116	15	34	17	42	17	7	37	39	9	3	15	23	-		
	<b>Units</b>	1	3	5	37	6	6	6	8	4	2	13	7	3	1	4	4	-		
<b>Other</b>	<b>Amount</b>	30	8	10	55	237	55	15	64	20	11	24	59	30	16	46	13	1,717		
<b>Gross profit</b>		▲6	▲6	▲13	94	17	5	▲22	133	▲30	▲23	▲204	62	▲71	▲48	▲177	36	64		
<b>Gross margin</b>		▲19%	▲16%	▲28%	19%	7%	4%	▲23%	14%	▲39%	▲18%	▲43%	15%	▲76%	▲37%	▲74%	13%	4%		
<b>SG&amp;A expense</b>		230	173	315	488	325	348	515	535	442	431	670	419	451	469	495	631	495		
<b>R&amp;D expense (Out of SG&amp;A)</b>		60	77	129	315	153	165	285	292	228	224	424	197	182	176	203	371	261		
<b>Operating profit</b>		▲237	▲180	▲328	▲393	▲308	▲342	▲538	▲401	▲473	▲454	▲874	▲356	▲523	▲517	▲672	▲594	▲431		

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

# Raised funds to strengthen financial base to accelerate overseas expansion, etc.

	Summary	Time	Amount raised	Usage of funds
<b>third-party allotment</b>	<ul style="list-style-type: none"> <li>■ Third-party allotment to CVI Investment, Inc.</li> <li>■ Issued new shares, convertible bonds (CBs) and fixed exercise price warrants <sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>■ New shares and CBs paid in February 2023</li> <li>■ Redemption date of the CBs is February 27, 2015.</li> </ul>	<p>Total 3.56 Bn JPY</p> <p>Common stock: 340 MM JPY, CBs: 1.39 Bn JPY, stock acquisition rights: 1.83 Bn JPY</p>	<ul style="list-style-type: none"> <li>■ Development and evaluation of drone</li> <li>■ Working capital for overseas business expansion</li> <li>■ Development of TAKEOFF software <sup>2</sup></li> </ul>
<b>International offering</b>	<ul style="list-style-type: none"> <li>■ Offering of common stock in overseas markets, primarily in Europe and Asia (excluding North America)</li> </ul>	<ul style="list-style-type: none"> <li>■ Paid in November 2023</li> </ul>	<p>Paid-in amount: 1.31 Bn JPY</p>	<ul style="list-style-type: none"> <li>■ R&amp;D expenses for drones and business investments related to mass production</li> <li>■ Working capital for overseas business expansion</li> </ul>
<b>Long-term debt</b>	<ul style="list-style-type: none"> <li>■ Long-term loan from JFC at fixed interest rate</li> <li>■ Equal principal repayment starting in 5 years (2029)</li> </ul>	<ul style="list-style-type: none"> <li>■ 10 years from January 2024</li> </ul>	<p>Loan amount: 1.44 Bn JPY</p>	<ul style="list-style-type: none"> <li>■ Working capital for overseas business expansion</li> </ul>
<b>Setting Commitment Lines</b>	<ul style="list-style-type: none"> <li>■ Commitment Line Contract with Resona Bank, Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>■ 7 months from March 2024</li> </ul>	<p>Borrowing limit: 1 Bn JPY</p>	<ul style="list-style-type: none"> <li>■ Working capital for the implementation of the SBIR</li> </ul>

1: May not be able to raise funds if subscription rights are not exercised

2: Proprietary ground station software for autonomous drone flight

# Potential Risks and Responses

Item	Major Risks	Our Perceptions and Risk Response Measures
<b>Macro</b>	<ul style="list-style-type: none"> <li>▪ Shortage of materials procurement against production plan due to semiconductor shortage and price hikes, material cost to sales ratio, and increased development costs</li> <li>▪ Increase in prices of products procured from overseas due to the weak yen and strong U.S. dollar</li> </ul>	<ul style="list-style-type: none"> <li>▪ Semiconductors used for high-power output 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</li> <li>▪ Overseas parts procured from domestic suppliers were partially affected by foreign exchange rate fluctuations which increased costs</li> </ul>
<b>Overseas deployment (e.g. military forces)</b>	<ul style="list-style-type: none"> <li>▪ Risk of being outperformed by overseas competitors in terms of competitiveness</li> <li>▪ Potential impact of laws and regulations and local business practices</li> <li>▪ Necessity of upfront investment for overseas expansion</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ 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</li> <li>▪ Possibility of aggressive upfront investment to acquire sales in overseas markets, including development of functions for local markets, export support, and initial customer acquisition</li> </ul>
<b>Regulation</b>	<ul style="list-style-type: none"> <li>▪ Impact of the Civil Aeronautics Act, etc. on our business</li> </ul>	<ul style="list-style-type: none"> <li>▪ ACSL has managed to get Tier-1 type certification for Level 4 flight. No impact foreseen by Civil Aeronautics Act in the coming years</li> </ul>
<b>Performance</b>	<ul style="list-style-type: none"> <li>▪ Uncertainty and seasonality of revenue recognition and cost execution</li> <li>▪ Need for aggressive investment in R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ Flexible investment policy in R&amp;D and other areas for product development, overseas expansion, and other high-potential initiatives</li> </ul>

Copyright © 2024 ACSL Ltd.

All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law.

Information in this material is subject to change without notice, its accuracy is not guaranteed and it may not contain all material information concerning ACSL Ltd. (the "Company"). The Company makes no representation regarding, and assumes no responsibility or liability for, the accuracy or completeness of, or any errors or omissions in, any information contained herein.

In addition, the information contains projections and forward-looking statements that may reflect the Company's current views with respect to future events and financial performance. These views are based on current assumptions which are subject to various risks and which may change over time. No assurance can be given that future events will occur, that projections will be achieved, or that the Company's assumptions are correct. It is not the intention to provide, and you may not rely on this presentation as providing, a complete or comprehensive analysis of the Company's financial or trading position or prospects.

This presentation does not constitute an offer or invitation to purchase or subscribe for any securities or financial instruments or to provide any investment service or investment advice, and no part of it shall form the basis of or be relied upon in connection with any contract, commitment or investment decision in relation thereto.

ACSL