Financial Results Material for FY24/12 Q3

ACSL Ltd (TYO: 6232)
November 13, 2024

Company outline

Company outline

Corporate Name	ACSL Ltd.
Representative	Satoshi Washiya (CEO and Representative Director)
Established	November 2013
Location	3-6-4 Rinkai-cho, Edogawa-ku, Tokyo Hulic Kasai Rinkai Bldg. 2F
No. of Employee[2]	54 (as of September 2024)
Description of Business	Manufacture and sale of commercial drones and provision of solution services for unmanned and IoT applications using autonomous control technology

At a glance[1]

Ratio of engineers	Approx. **65**%
# of Non-Japanese	Approx. **20**%
Client	**236** companies

1: Percentage of engineers and number of foreign employees are as of September, 2024. The number of customers is the total number of customers from FY19/03 to FY24/12 Q3. All figures do not include group companies
2: Full time employee. Not including group companies.

1. Market / Mission / Growth strategy

2. FY23/12 Q3 results and highlights

3. Financial forecast

4. Appendix

MISSION

Liberate Humanity Through Technology

VISION

Revolutionizing Social Infrastructure By Pursuing Cutting-Edge Robotics Technology

Issues that social infrastructure is facing today

Issue

Social infrastructure is not sustainable

Lack of workforce

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

Aging population

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

Rapid increase of workload

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

Solutions that drones can bring

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

Act autonomously

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

Become “Eye” and “Hand”

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

Move space freely

Drone can fly both indoor and outdoor in any open space

Control remotely

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

Drone market environment

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

01

Economic Security Data sensitivity

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

02

Unmanned Optimization, DX

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

03

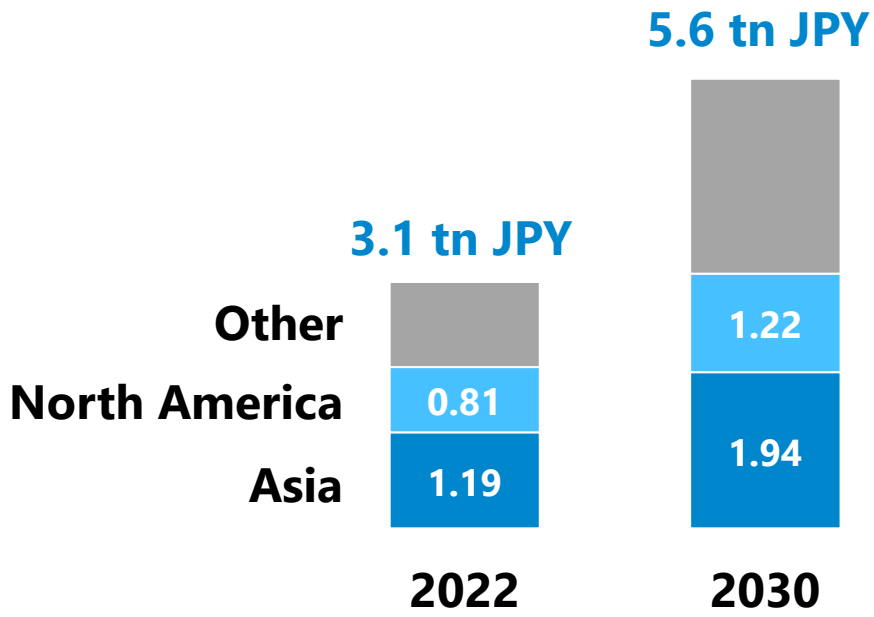
Decarbonization EV

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

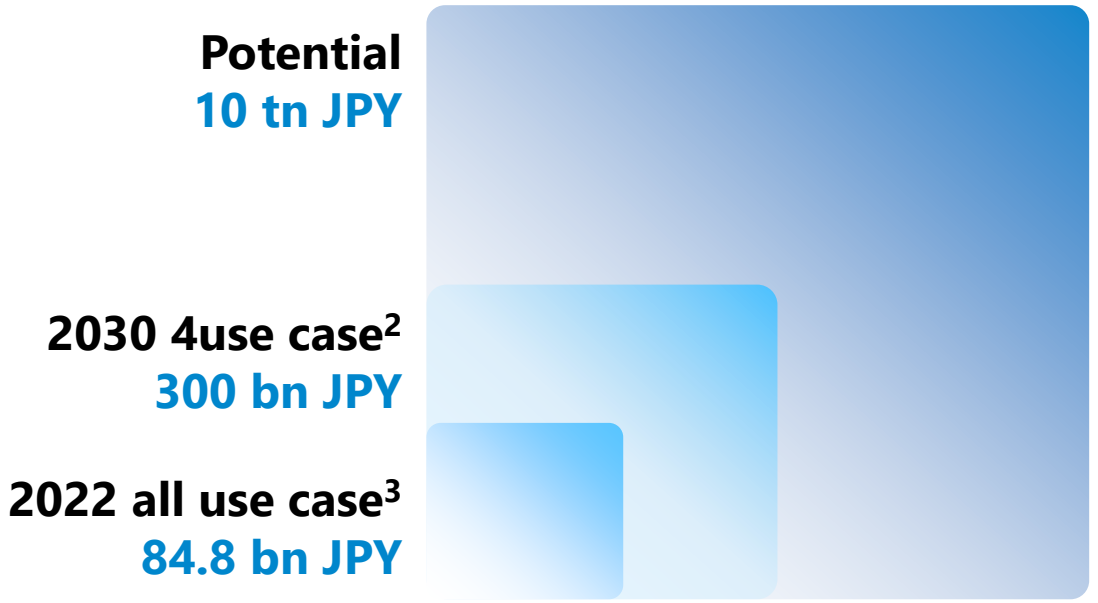
Drone market size

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

Global drone market[1]



Japan drone hardware market



1: Drone Industry Insights (Calculated at 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"

ACSL Competitive Environment

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

	Japan	US
consumers	Mainly hobby drones made in China.	Mainly hobby drones made in China. U.S.-made drones are also deployed.
Industry – Aerial photography	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
Industry – Delivery	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.
government	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.
Millitary	Included in the above for government	U.S. and French manufacturers are most focused

Our Expansion

Other

India

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.

Taiwan

As in the U.S., the trend is toward de-China. Local companies exist, but they are small, and Western manufacturers are less focused.

Who we are

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

ACSL Business

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

Solution development

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

Delivery | Aerial photo | Inspection

Delivery body + Aerial photo body + Inspection body + . . .

Autonomous Control Technology

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 focus on domains with strong competitiveness and profitability

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

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

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FY24/12 Q3 results and highlights

Summary

Sales have been strong, recording 21.2 billion yen. The order backlog, including large projects in the United States, stands at 6.5 billion yen.

SG&A and R&D expenses, excluding SBIR, were reduced from YoY

Sales

Sales
2.12 bn JPY

Sales + Backlog
2.77 bn JPY

YoY +224%

A large order was received in the U.S. market. Total sales and order backlog are on target for the year.

Profit rate

Gross profit rate
4%
YoY +13pt

Marginal profit rate[1]
59%
YoY ±8pt

Both gross profit margin for the entire company and marginal profit margin for existing businesses improved from last year.

Operating income

-1.52 bn JPY
YoY -121 mn JPY

Main biz[1]	-12.4 bn
India	+1.1 bn
SBIR	-4.0 bn

SBIR R&D expenses were recorded. Cost reduction effects of business restructuring have been realized.

1: Excluding India large project

FY24 financial plan and Q3 Results Summary (Consolidated)

FY24 Q3 sales and profit outlook is favorable relative to the annual target

[mn JPY]	FY24 Numerical Plan				FY24/12 Q2 Results			
	After transfor-mation	India Large projects	SBIR (Gov. Project)[1]	Total	After transfor-mation	India Large projects	SBIR (Gov. Project)[1]	Total
Net sales	1,500	+1,840	-	3,340	427	+1,700	-	2,128
(Incl. Backlog)					(1,073)			(2,773)
Gross profit	70	+40	-	110	▲27	+119	-	92
Gross profit ratio	5%	-	-	3%	▲6%	-	-	4%
SG&A (inc. R&D, US subsidiary)	1,570	-	+1,600	3,170	1,215	-	+400	1,615
Operating profit	▲1,500	+40	▲1,600	▲3,060	▲1,242	+119	▲400	▲1,523
Ordinary profit	▲1,500	+40	▲400 (Non-Op. income +1,200)	▲1,860	▲1,308	+119	▲400 (Non-Op. income -)	▲1,589
Net Profit	▲1,575	+40	▲400	▲1,935	▲1,375	+119	▲400	▲1,656

▲ stands for negative

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 Q3 Results compared to previous year

Sales and backlogs increased YoY.

Operating income decreased due to SBIR R&D expenses

[mn JPY]	FY24/12 Q3 Results	FY23/12 Q2	FY23/12 Annual	YoY
Net sales	2,128	657	896	+1,471
Gross profit	92	▲57	▲235	+149
Gross profit ratio	4%	▲9%	▲26%	+13pt
SGA[1]	1,615	1,340	1,836	+274
SGA w/o SBIR	1,215			▲125
SBIR	400			+400
Operating profit	▲1,523	▲1,398	▲2,071	▲124
Ordinary profit	▲1,589	▲1,444	▲2,102	▲145
Net profit	▲1,656	▲1,458	▲2,544	▲198

Summary

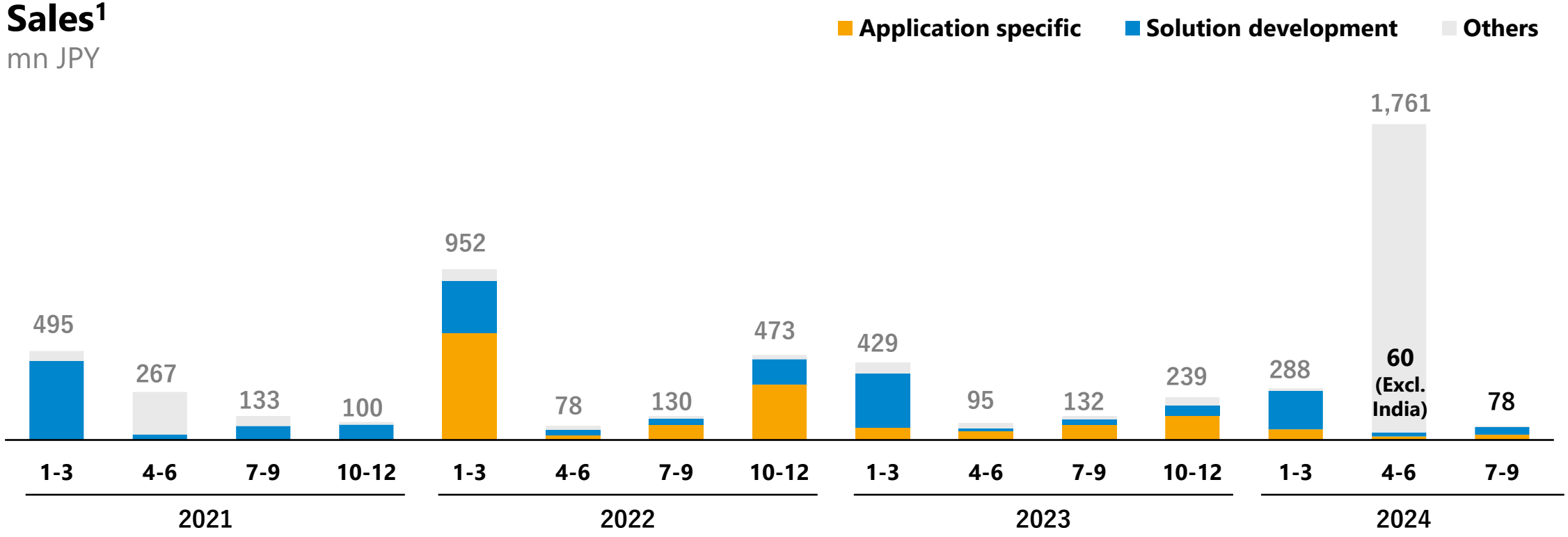
- Significant increase YoY due to the booking of a project in India; expect to book a large project in 4Q
- The backlog is 6.4 bn JPY as of the announcement date of 3Q results, up 61% (+2.4 bn JPY) from the same period last year, and the business is progressing steadily
- Gross profit margin increased YoY, partly due to the contribution of the India project
- SG&A expense without SBIR reduced by 125 mn due to business transformation
- 400 mn JPY SBIR expense booked as R&D
- Deteriorated YoY due to SBIR R&D expenses despite increase in Sales
- Special severance payment for implementation of voluntary retirement program was recorded as an extraordinary loss in Q1

1: includes R&D and US subsidiary

Quarterly Net Sales

Increased significantly YoY due to India large project

Sales[1]
mn JPY



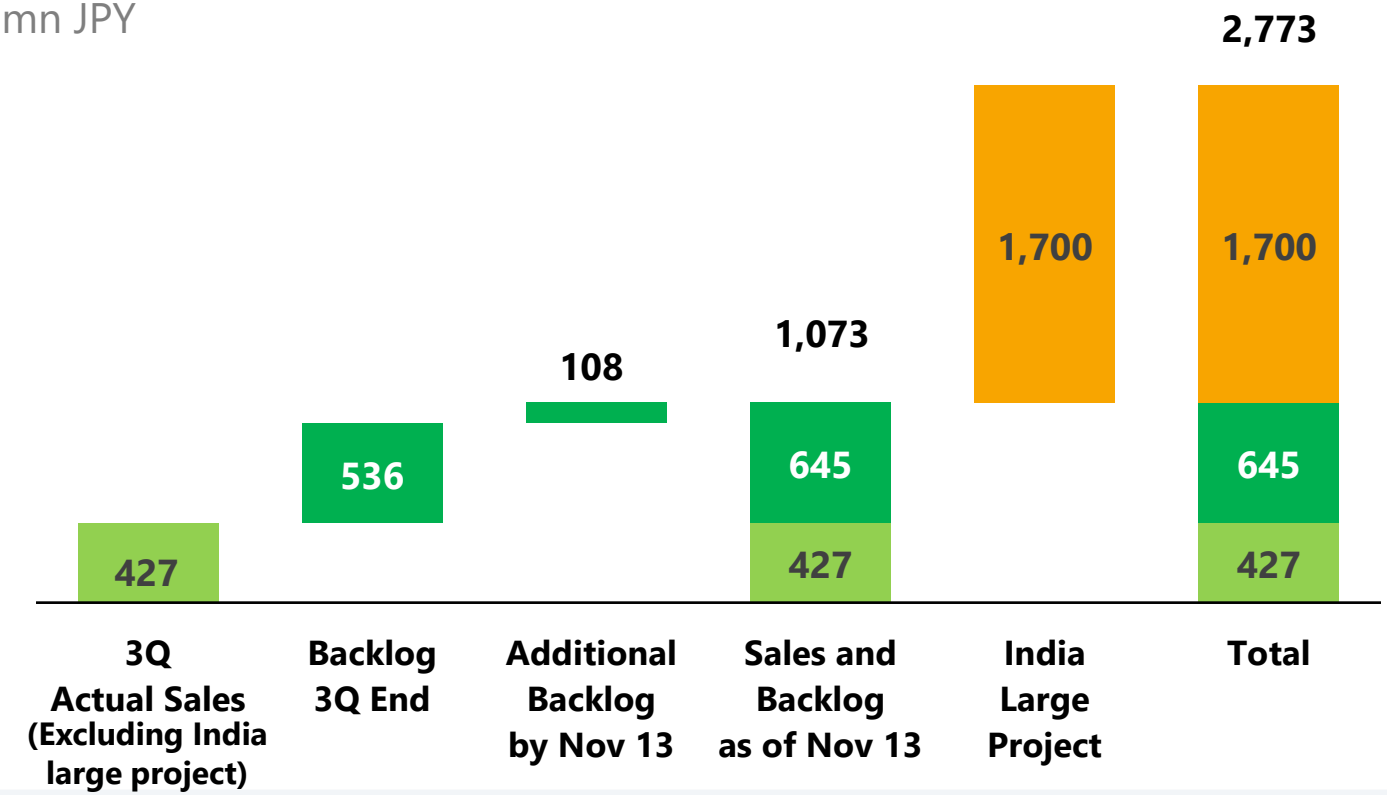
1: The fiscal year ended March 31, 2021, and the following fiscal year ended December 31 2021 is a 9-month irregular accounting period from

FY24/12 3Q End Backlog

Sales and order backlog totaled 2.7 bn JPY
Additional 629 mn JPY backlogs for FY25 already built

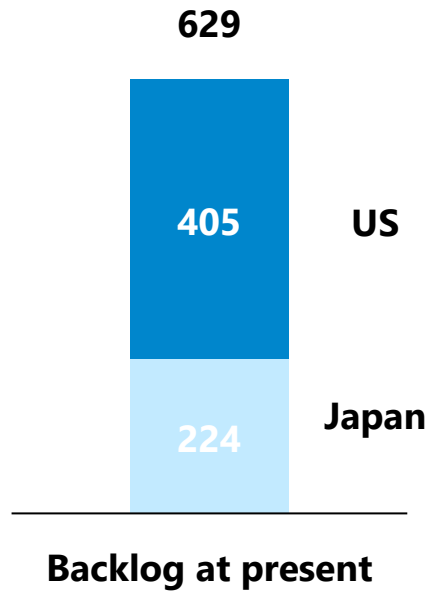
Sales and backlog[1]

mn JPY



FY25 backlog[1]

mn JPY



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

Status of overseas expansion

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 6 companies, and started expansion in the U.S. through 9 distributors/dealers.**
- **Highly evaluated in the U.S., where Non-China is progressing. SOTEN's, NDAA[1] compliance and competitive pricing have earned high interest and expectations from equipment inspection companies in the U.S.**
- **Obtained better results than US-made drones in a comparison test using drones at a local infrastructure inspection companies**
- **Signed a distributorship agreement with Exertis Almo in October 2024 and received an order for 500 units**

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.

De-China Drone Movement in the U.S.

The movement away from Chinese drones in the U.S. is gaining momentum, increasing demand for NDAA[1] 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.

US Expansion

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

GEN PAC General Pacific, Inc.
Distributor leading the US drone market

C2 GROUP
Drone solution provider to infrastructure companies

FIRMATEK
Drone service provider to mining and infrastructure companies

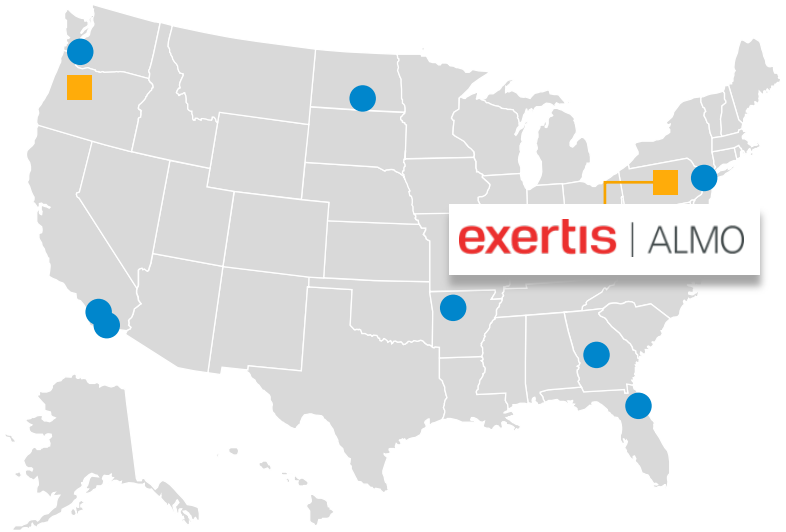
Ameren
Largest utility company in Missouri. Listed at Fortune 500.

valmont
Global agri and infra company with footprint in 21 countries

CYBERHAWK Your assets. Our solutions. Better decisions.
Hundreds of thousands of drone facility inspections per year for more than 300 customers in 40 countries

Distributor and dealer network in the US

Expanding US with wide coverage



Distributor

Exertis Almo
Pennsylvania

General Pacific
Oregon

Dealer

Advexure Enterprise
California

Blue Skies Drones
Washington

DronesMadeEasy
California

Frontier Precision
North Dakota / Florida

Gresco Utility Supply
Georgia

Unmanned Vehicle Technologies
Arkansas

Volatus Drones
New York

New large orders in the U.S.

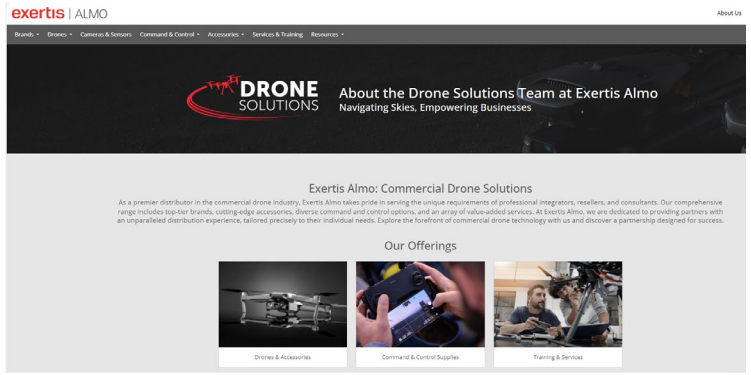
Signed distributor agreement with Exertis Almo and received a large order for 500 SOTEN units. Aims to further expand sales in the U.S. market

exertis | ALMO

- Subsidiary of DCC plc, a **constituent of the FTSE 100 Index**
- **Provides drone sales, training programs and support services,** leveraging its supply chain of commercial AV equipment and other products throughout the U.S.

Order details

- Order **SOTEN 500 units**
- Amount[1] : Approx. **510 mn JPY (3.4 mn USD)**
- Delivery date: Dec. 2024 - June 2025 (to be determined)



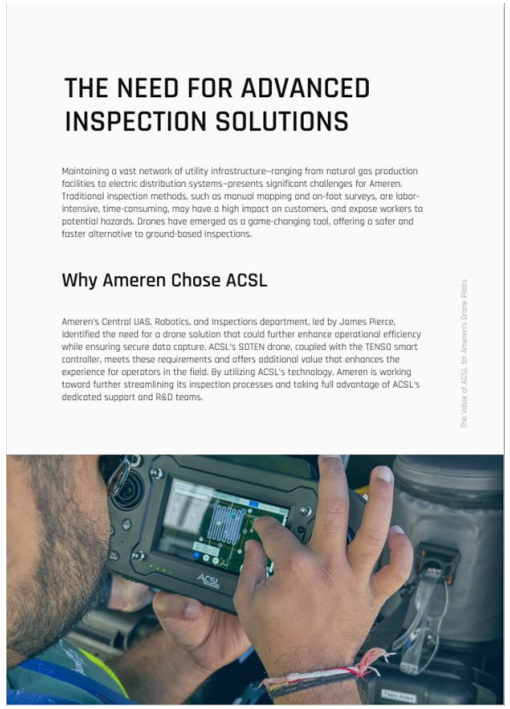
* 1USD = 150 JPY
Source: Exertis Almo website

Ameren, strategic collaboration partner, promotes the appeal of SOTEN

Ameren published a white paper on “SOTEN” and the smart controller “TENSO”. Promoted the appeal of secure and user-friendly products

Overview of Ameren and White Papers

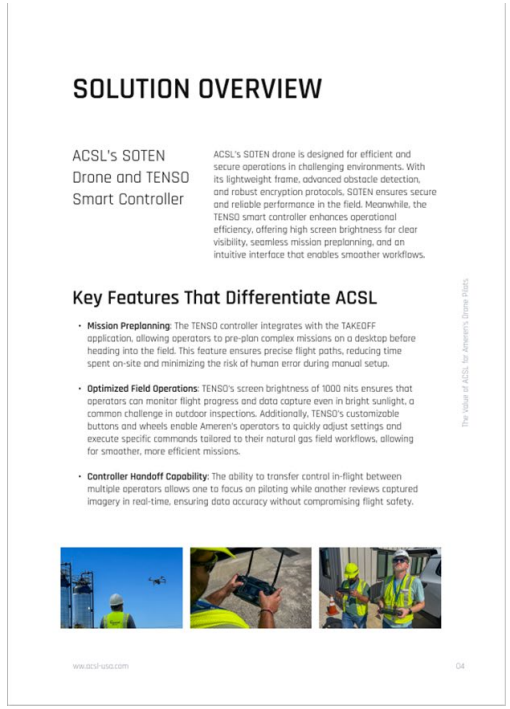
- **Ameren signs strategic collaboration** with U.S. subsidiary ACSL, Inc.
- Ameren is a **Fortune 500 company** providing electric service to approximately 2.4 million electric customers and 900,000 natural gas customers over 64,000 square miles in Illinois and Missouri
- The white paper introduces **SOTEN's improved inspection efficiency and ease of use at the inspection site**
- As a case study, the white pater used SOTEN and TENSO to map the complex and extensive topography of a natural gas storage facility, and specifically illustrated the advantages gained over traditional methods


THE NEED FOR ADVANCED INSPECTION SOLUTIONS

Maintaining a vast network of utility infrastructure–ranging from natural gas production facilities to electric distribution systems–presents significant challenges for Ameren. Traditional inspection methods, such as manual mapping and on-foot surveys, are labor-intensive, time-consuming, may have a high impact on customers, and expose workers to potential hazards. Drones have emerged as a game-changing tool, offering a safer and faster alternative to ground-based inspections.

Why Ameren Chose ACSL

Ameren's Central UAS, Robotics, and Inspections department, led by James Pierce, identified the need for a drone solution that could further enhance operational efficiency while ensuring secure data capture. ACSL's SOTEN drone, coupled with the TENSO smart controller, meets these requirements and offers additional value that enhances the experience for operators in the field. By utilizing ACSL's technology, Ameren is working toward further streamlining its inspection processes and taking full advantage of ACSL's dedicated support and R&D teams.


SOLUTION OVERVIEW

ACSL's SOTEN Drone and TENSO Smart Controller

ACSL's SOTEN drone is designed for efficient and secure operations in challenging environments. With its lightweight frame, advanced obstacle detection, and robust encryption protocols, SOTEN ensures secure and reliable performance in the field. Meanwhile, the TENSO smart controller enhances operational efficiency, offering high screen brightness for clear visibility, seamless mission preplanning, and an intuitive interface that enables smoother workflows.

Key Features That Differentiate ACSL

- **Mission Preplanning**: The TENSO controller integrates with the TAKEOFF application, allowing operators to pre-plan complex missions on a desktop before heading into the field. This feature ensures precise flight paths, reducing time spent on-site and minimizing the risk of human error during manual setup.
- **Optimized Field Operations**: TENSO's screen brightness of 1000 nits ensures that operators can monitor flight progress and data capture even in bright sunlight, a common challenge in outdoor inspections. Additionally, TENSO's customizable buttons and wheels enable Ameren's operators to quickly adjust settings and execute specific commands tailored to their natural gas field workflows, allowing for smoother, more efficient missions.
- **Controller Handoff Capability**: The ability to transfer control in-flight between multiple operators allows one to focus on piloting while another reviews captured imagery in real-time, ensuring data accuracy without compromising flight safety.

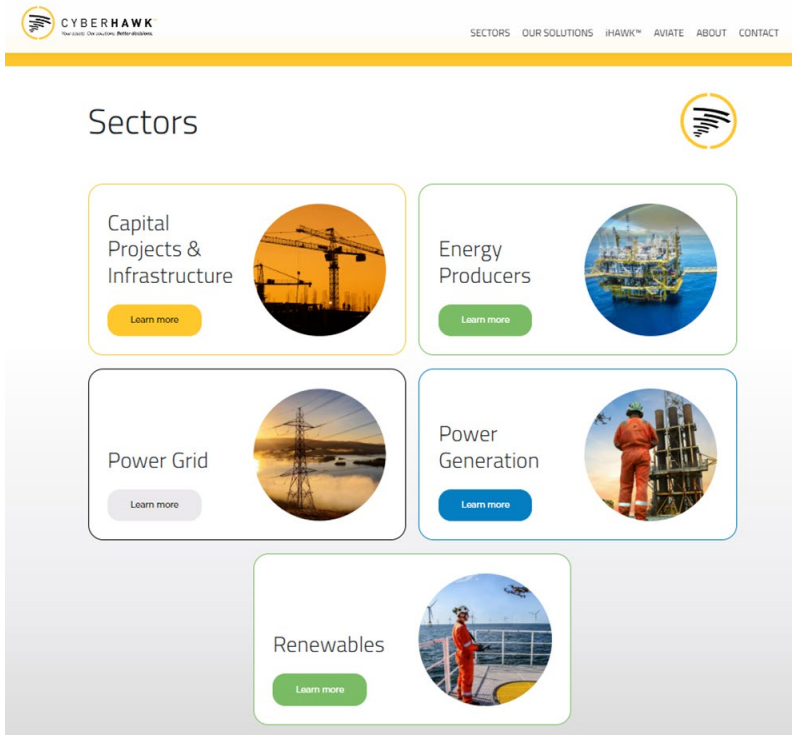
Further MOUs signing with US Companies

Signed MOU with Cyberhawk for a strategic partnership to further accelerate sales and market exploration in the U.S. market

Overview of Cyberhawk and the MOU

CYBERHAWK™
*Your assets. Our solutions. **Better decisions.***

- On October 29, 2024, the U.S. subsidiary ACSL, Inc. **signed an MOU with Cyberhawk Inc.**
- Cyberhawk is a **provider of drone-based inspection services** to electric power and oil and gas customers in more than 40 countries worldwide
- ACSL, Inc. and Cyberhawk will leverage their mutual strengths and expertise in their respective industries to **further promote the deployment of drones and their use in the critical infrastructure industry in the U.S. market**



Source: Cyberhawk website

Announces high pixel infrared camera compliant with NDAA[1] in the US

Released high pixel infrared camera in the U.S. market. Aims to expand customer base by quickly providing products that meet customer needs

Overview of the high-pixel infrared cameras

- Strong demand from the US market customers for an upgraded visual and IR camera
- **Upgraded to 640 x 512 pixel Boson sensor** from previous 320 x 256 pixel infrared camera
- **One-touch replacement** enables smooth replacement at the site of use.
- Sales to start at the end of 2024, **exhibited at Commercial UAV Expo in Las Vegas, U.S. in September 2024, and received high acclaim**

New high-resolution infrared camera

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.

Agreement with Saijo City, Ehime Pref. on disaster support activities

Provide information and support for the transportation of goods in the disaster by utilizing our accumulated experience in providing on-site disaster support

Overview of Agreement

- Signed an **agreement with Saijo City, Ehime Prefecture**, on September 19, 2024, regarding support activities in the event of a disaster, etc.
- ACSL, a leading drone manufacturer in the drone industry that was the first in Japan to achieve Level 4 flight, will use its accumulated experience in providing on-site support to **provide information and transport supplies in the event of a disaster**, etc.
- We have been providing support for disaster relief in various fields and are convinced of the usefulness of drones in disaster relief and disaster prevention, and will continue to promote the use of drones in these fields

Agreement signing ceremony

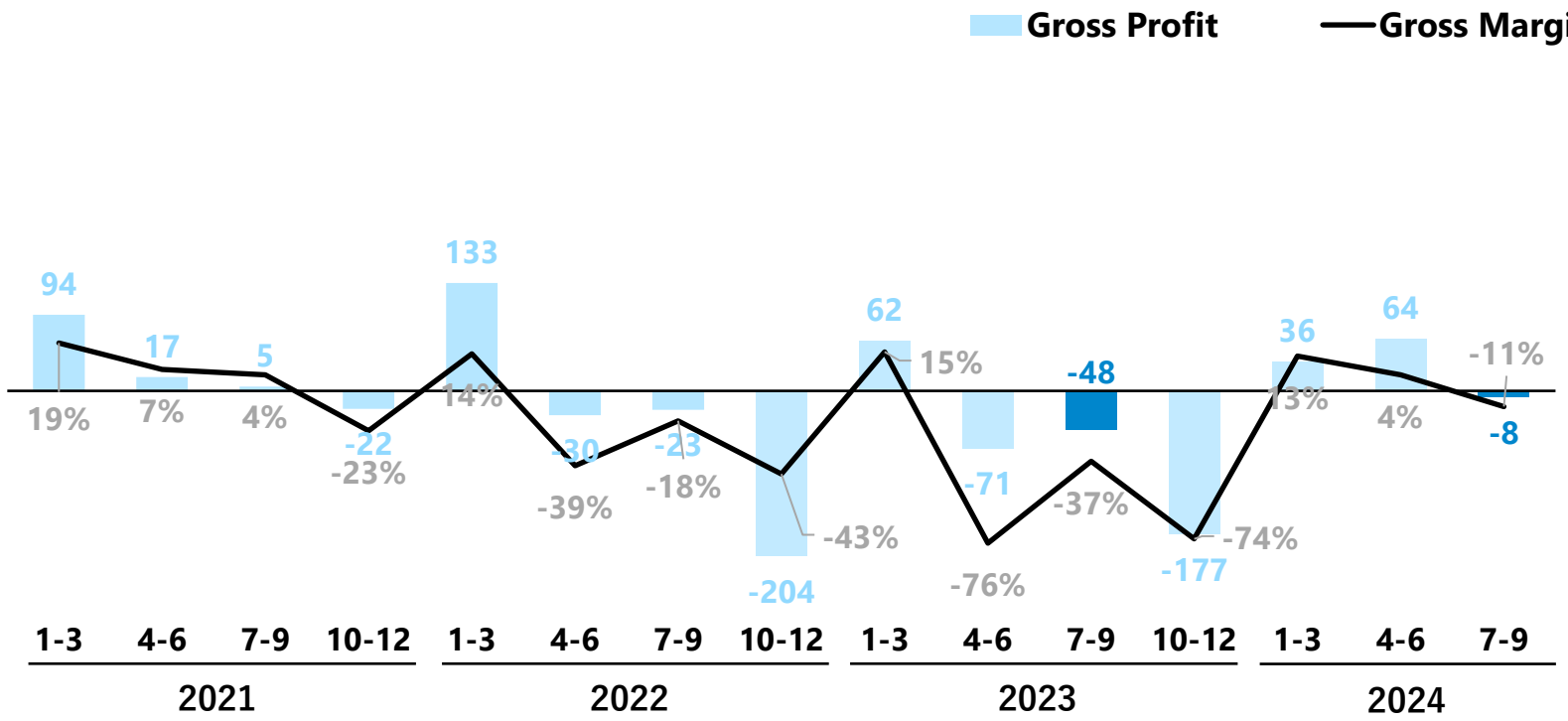

Survey of the damage by drone in Wajima City

Gross Profit and Gross Margin

Gross margin improved from Q4 of the previous fiscal year. Gross profit and gross margin improved YoY

Gross Profit and Gross Margin[1]

mn JPY



- Gross margin improved from Q4 of the previous fiscal year
- Gross profit and gross margin improved YoY
- 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[1]

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

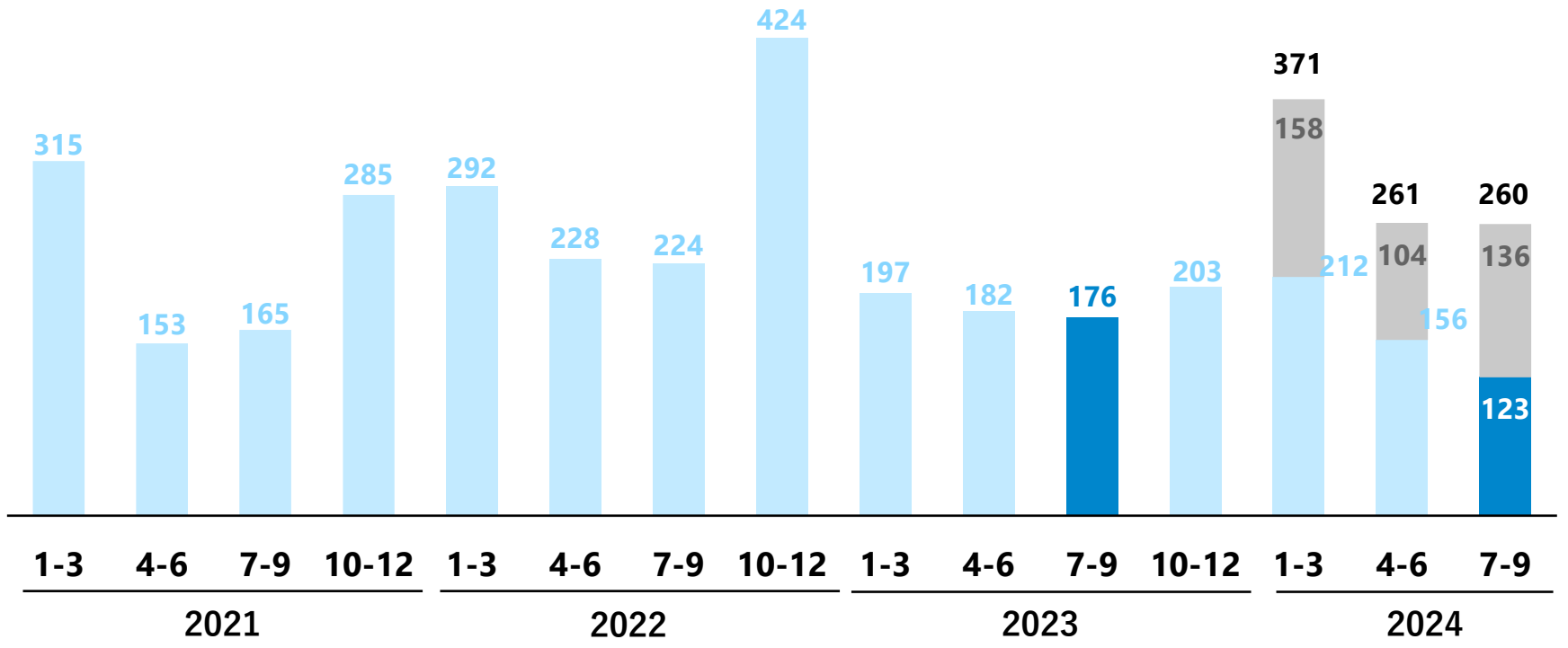
		FY22/12 Full Year	FY23/12 Full Year	FY24/12 Q3 Results
SOTEN (Aerial photography)	Sales (100 mn JPY)	9.3	2.0	0.9
	# of drones (units)	645	101	51
	Marginal profit ratio (%)	20	46	43
Solution Development (Proof-of-concepts trials, sales of prototype drone)	Sales (100 mn JPY)	5.0	3.3	2.8
	Marginal profit ratio (%)	54	61	65

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[2].
R&D for current business decreased YoY

R&D expense[1]
mn JPY



1: Fiscal year ending in March until FY21/3. FY21/12 is irregular with 9 months between 21/04~21/12. FY22 onward is fiscal year ending December
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
経済産業省 Ministry of Economy, Trade and Industry **SBIR** (Small Business Innovation Research program)	A large-scale technology demonstration project to promote research and development by small and medium-sized enterprises	■ Development of a new high-performance compact aerial photography drone that takes economic security and security into consideration ■ Utilizing the knowledge gained through the development of SOTEN, we will respond to the demand for small aerial photography drones in Japan and overseas.	■ Period：Dec 2023 ~Dec 2025 ■ Subsidy：Max 2.6 bn JPY
国立研究開発法人 科学技術振興機構 **K Program** (Economic security important technology development program)	Developing cutting-edge and important technologies that are essential for Japan to maintain a firm position in the international community	■ Research and development of control technology and system construction that can realize autonomous group flight in harsh environments ■ Development of technology for multiple drones to estimate and understand their own spatial position and share	■ Period：Apr 2024 ~Mar 2028 ■ R&D subsidy：Max 1 bn JPY[2]
NEDO **K Program**	Same as above	■ Study for hardware development of small drone with autonomous and distributed control functions ■ Analysis of existing small drone products and research and development trends as a survey of advanced technologies in Japan and overseas to define the direction of competitive drone development	■ Period：Apr 2024 ~Mar 2028 ■ project scale：Max 100 mn JPY

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

1. Market / Mission / Growth strategy

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FY24/12 Amended financial forecast

Summary

Although a **large order was received in the US,** sales decreased due to the **postponement of the booking of sales to the next fiscal year**

Operating income was maintained in existing businesses due to **cost reductions achieved through business restructuring**

SBIR delayed the recording of expenses and subsidies to the next fiscal year

Sales

Revised Sales

2.9 bn JPY

vs. previous forecast

-440 mn JPY

Although a large order in the U.S. was received, part of it will be booked in 2024 due to export procedures etc. The remainder will be booked from next year onward.

Cost

Revised Gross profit rate

5%

vs. previous forecast

+2pt

Revised SG&A expenses (existing business[1])

1.57bn JPY

vs. previous forecast

±0 JPY

Gross margin improved despite sales decline; SG&A expenses reduced due to structural reforms

Profit

Revised Operating profit

-2.43 bn JPY

vs. previous forecast

+630 mn JPY

Revised ordinary profit

-2.03 bn JPY

vs. previous forecast

-170 mn JPY

Operating loss narrowed due to restructuring and SBIR R&D expense disallowance. On the other hand, oridinal loss increased due to the delay in subsidy income.

1: Excluding India large project and SBIR

FY24/12 Forecast and Amended forecast(consolidated)

FY24 Operating loss narrowed despite expected timing of acceptance inspection and other discrepancies from the forecast

[mn JPY]	Original FY24 Numerical Plan				Revised FY24/12 forecast				
	Existing business	India Large projects	SBIR (Gov. Project)[1]	Total	Existing business	India Large projects	SBIR (Gov. Project)	Total	Gap to plan
Net sales (Incl. Backlog)	1,500	+1,840	-	3,340	1,200	+1,700	-	2,900	▲ 440
Gross profit	70	+40	-	110	21	+119	-	140	+30
Gross profit ratio	5%	-	-	3%	2%	-	-	5%	+2%
SG&A (inc. R&D, US subsidiary)	1,570	-	+1,600	3,170	1,570	-	+1,000	2,570	▲ 600
Operating profit	▲1,500	+40	▲1,600	▲3,060	▲1,549	+119	▲1,000	▲2,430	+630
Ordinary profit	▲1,500	+40	▲400 (Non-Op Income+1,200)	▲1,860	▲1,649	+119	▲500 (Non-Op Income+500)	▲2,030	▲ 170
Net Profit	▲1,575	+40	▲400	▲1,935	▲1,679	+119	▲500	▲2,060	▲ 125

▲ stands for negative

1: Income to be booked as non-operating income as a subsidy when the amount of expenditure is finalized after inspection by the Ministry of Economy, Trade and Industry.Expenditures up to Q3 FY12/2024 will be recognized in FY12/2024.Expenditures for Q4 FY12/2024 and beyond will be recorded in 2025 and beyond. As of Q3 2024, subsidies have not been received and will be received in the future.

FY24/12 Gap between numerical plan and results estimated (consolidated)

Discrepancies due to the timing of sales booking in US, execution of SBIR, and payment receipts

[mn JPY]	FY24/12 result estimated	Difference total	Breakdown of difference from initial plan: Existing business	India Large projects	SBIR (Gov. Project)[1]	Primary factors
Net sales	2,900	▲440	▲300	▲140	-	■ Sales in Japan are as expected ■ A Large orders received in the U.S., but only a portion of it will be delivered this fiscal year due to exports and related factors
Gross profit	140	+30	▲49	+79	-	■ Decrease in gross profit due to sales displacement in existing businesses ■ Profitability improved despite sales decline in India large projects
Gross profit ratio	5%	+2%	▲3%	+5%	-	
SG&A (inc. R&D, US subsidiary)	2,570	▲600	±0	-	▲600	■ Existing businesses achieved cost reductions through structural reforms, but costs increased due to the expansion of some businesses to the U.S. ■ SBIR progressed as expected, but costs of 0.6 bn JPY recorded in this fiscal year were not included
Operating profit	▲2,430	+630	▲49	+79	＋600	■ Operating income improved due to higher gross profit and lower SG&A expenses ■ Non-operating income decreased from 1.2 bn JPY to 0.5 bn JPY due to the delay in the receipt of SBIR subsidies, which was estimated at the beginning of the period.
Ordinary profit	▲2,030	▲170	▲149	+79	▲100 (Non-Op Income ▲700)	
Net Profit	▲2,060	▲125	▲129	+79	▲100	

1: Income to be booked as non-operating income as a subsidy when the amount of expenditure is finalized after inspection by the Ministry of Economy, Trade and Industry.Expenditures up to Q3 FY12/2024 will be recognized in FY12/2024.Expenditures for Q4 FY12/2024 and beyond will be recorded in 2025 and beyond. As of Q3 2024, subsidies have not been received and will be received in the future.

1. Market / Mission / Growth strategy

2. FY23/12 Q3 results and highlights

3. Financial forecast

4. Appendix

FAQs 1/3

Item	Question	Answer
Macro	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.
Macro	Will semiconductor shortage continue to have impact?	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. We do not expect marginal profit margins to deteriorate due to the shortage of semiconductors in the future.
Domestic market	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.
Overseas	The progress in US and the specific timing of sales, future prospect	In the U.S., some customers were on the fence in anticipation of the enactment of regulations related to the banning Chinese drones, but in October, ACSL signed a distributorship agreement with Exertis Almo and received orders for 500 units. In addition to the 500 units ordered, ACSL expects to continue to expand sales in the next year and beyond.
Overseas	The progress in Taiwan	We have signed a dealership contract with a local sales agent and conducted demos. We are discussing sales plan with the distributor
Overseas	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.

1 USD = 135 JPY

FAQs 2/3

Item	Question	Answer
Outlook	Summary of progress and revisions to the forecast	See p16-18 for details. Japan sales were favorable as planned. In the U.S., orders received were equal to or exceeded the plan, but sales for this fiscal year will be limited to a portion due to delays in the timing of acceptance inspections. As a result, sales are down from the original plan. Despite lower sales, gross margin improved and SG&A expenses were reduced through structural reforms, and operating margin improved due in part to the delayed recognition of SBIR expenses. On the other hand, ordinary income fell short of the plan due to the delayed receipt of SBIR subsidies (non-operating income).
Outlook	What is the composition of sales, and the overseas ratio for FY24?	SOTEN sales are the main source of sales, excluding large projects in India. In addition, sales in Japan include demonstration tests in the logistics field and sales of existing aircraft. Sales to the U.S. are limited in the current fiscal year. The company expects to increase the ratio of sales to the U.S. from the next fiscal year onward.
Outlook	Risk factors regarding the revised forecast are	One risk is the possibility that the acceptance inspection of some sales may be delayed to the next fiscal year. Specifically, a portion of the order from Exertis Almo is expected to be booked in FY24, but there is a risk that the acceptance inspection will be delayed to the next fiscal year due to delays in export procedures, delivery, etc. Although no major risk factors are expected in terms of costs, there is a risk that the posting of subsidies expected as non-operating income will be delayed to the next fiscal year due to procedures and other factors.
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.

1 USD = 135 JPY

FAQs 3/3

Item	Question	Answer
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.
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 fabless manufacturer, we outsource production to an external partner in Japan and can handle increased manufacturing capacity.
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.

Balance Sheet

Mn JPY	FY24/12 Q3 Actual	FY24/12 Q3 YoY change to same period previous year	FY23/12 Q3 Actual	FY23/12 Actual
Current assets	4,030	＋35%	2,987	4,203
Cash	1,161	＋67%	693	1,499
Fixed assets	901	▲39%	1,484	891
Current liabilities	1,800	＋71%	1,055	1,603
Fixed liabilities	2,238	＋54%	1,453	1,227
Total liabilities	4,039	＋61%	2,508	2,830
Net assets	892	▲55%	1,962	2,264
Total assets	4,931	＋10%	4,471	5,094

Major financial items by year

mn JPY	Accounting Period[1]	FY19/03	FY20/03	FY21/03	FY21/12	FY22/12	FY23/12	FY24/12 3Q YTD
Sales		807	1,278	620	501	1,635	896	2,128
Small aerial photography drone (SOTEN)	Amount	-	-	-	-	939	206	97
	Units					645	101	51
Other application-specific drone	Amount	-	-	-	-	73	132	13
	Units					18	26	1
PoC and Development	Amount	293	866	370	124	397	337	221
	# of project	81	112	82	41	71	52	27
Sales of Platform/Evaluation drone	Amount	384	304	145	67	103	67	59
	Units	106	101	46	18	27	15	15
Other	Amount	129	107	105	308	120	152	1,737
Gross profit		403	808	68	0	▲124	▲235	92
Gross margin		50%	63%	11%	0%	▲8%	▲26%	4%
SG&A expense		733	792	1,207	1,189	2,079	1,836	1,615
R&D expense (Out of SG&A)		366	275	583	604	1,168	759	893
Operating profit		▲330	15	▲1,139	▲1,188	▲2,203	▲2,071	▲1,523

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[1]	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	3Q
Sales		36	42	46	495	267	133	100	952	78	130	473	429	94	132	239	288	1,761	78
Small aerial photography drone (SOTEN)	**Amount**	-				-			590	21	25	301	33	49	37	86	46	19	30
	Units								475	6	7	157	13	16	13	59	31	8	12
Other application-specific drone	**Amount**	-				-			3	2	60	7	34	0	46	50	12	0	-
	Units								1	2	15	-	6	-	10	10	1	0	-
PoC and Development	**Amount**	1	22	22	323	14	42	67	252	16	25	103	262	5	28	40	192	22	5
	# of project	2	11	15	54	6	14	21	34	2	12	23	28	4	10	10	18	4	5
Sales of Platform/Evaluation drone	**Amount**	4	10	13	116	15	34	17	42	17	7	37	39	9	3	15	23	-	36
	Units	1	3	5	37	6	6	6	8	4	2	13	7	3	1	4	4	-	11
Other	**Amount**	30	8	10	55	237	55	15	64	20	11	24	59	30	16	46	13	1,717	6
Gross profit		▲6	▲6	▲13	94	17	5	▲22	133	▲30	▲23	▲204	62	▲71	▲48	▲177	36	64	▲8
Gross margin		▲19%	▲16%	▲28%	19%	7%	4%	▲23%	14%	▲39%	▲18%	▲43%	15%	▲76%	▲37%	▲74%	13%	4%	▲11%
SG&A expense		230	173	315	488	325	348	515	535	442	431	670	419	451	469	495	631	495	488
R&D expense (Out of SG&A)		60	77	129	315	153	165	285	292	228	224	424	197	182	176	203	371	261	260
Operating profit		▲237	▲180	▲328	▲393	▲308	▲342	▲538	▲401	▲473	▲454	▲874	▲356	▲523	▲517	▲672	▲594	▲431	▲496

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
third-party allotment	■ Third-party allotment to CVI Investment, Inc. ■ Issued new shares, convertible bonds (CBs) and fixed exercise price warrants [1]	■ New shares and CBs paid in February 2023 ■ Redemption date of the CBs is February 27, 2015.	Total 3.56 Bn JPY Common stock: 340 MM JPY, CBs: 1.39 Bn JPY, stock acquisition rights: 1.83 Bn JPY	■ Development and evaluation of drone ■ Working capital for overseas business expansion ■ Development of TAKEOFF software [2]
International offering	■ Offering of common stock in overseas markets, primarily in Europe and Asia (excluding North America)	■ Paid in November 2023	Paid-in amount: 1.31 Bn JPY	■ R&D expenses for drones and business investments related to mass production ■ Working capital for overseas business expansion
Long-term debt	■ Long-term loan from JFC at fixed interest rate ■ Equal principal repayment starting in 5 years (2029)	■ 10 years from January 2024	Loan amount: 1.44 Bn JPY	■ Working capital for overseas business expansion
Setting Commitment Lines	■ Commitment Line Contract with Resona Bank, Ltd.	■ 7 months from March 2024	Borrowing limit: 1 Bn JPY	■ Working capital for the implementation of the SBIR

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

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