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August 8, 2024

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Frequently Asked Questions and Answers (Financial Results of Fiscal Year Ending April 30, 2024)

Listed below are frequently asked questions and answers during investor communication since our earnings announcement for the fiscal year ending April 30, 2024. We are planning to provide this information periodically for the purpose of enhanced investor communication and fair disclosure. While there may be slight discrepancies due to timing differences, these responses are based on our current policies as of July 31, 2024.

Information Disclosure Policy

Q: Will disclosure be made upon being awarded a project from a customer?

A: Disclosure will be made when the project is awarded and becomes disclosable or at the time of contract signing. As a general rule, we will disclose all contracts that impact financial performance materially. However, there may be cases where contracts are not disclosed due to confidentiality.

Q: When do you plan to disclose profit forecasts for the fiscal year ending April 2025?

A: We aim to publish profit forecasts for the fiscal year ending April 2025 at the time of the first-half financial results announcement. We may be unable to disclose profit forecasts at that time depending on the timing of major project orders and discussions with auditors. In such case, we plan to disclose the information as soon as possible.
In the financial results announcement for the fiscal year ending April 2024 released on June 13, 2024, we only disclosed project income forecasts. We were unable to issue profit forecasts because revenue and cost recognition for projects expected to be contracted in the future cannot be finalized without consent from auditors based on formal contracts. However, project income forecast was disclosed at that time since project income includes all income regardless of revenue recognition (revenue or government grant income). For the fiscal year ending April 2025, we aim to secure awards for major projects by the end of this calendar year and to the extent possible, publish full-year financial forecasts at the time of the first-half financial results announcement.

Business Environment

Q: Who are the main customers for on-orbit services (OOS)?

A: The customers are national governments and commercial satellite operators who own objects that require servicing such as satellites or space debris. Consent from the owner of operational satellites or space debris is required to service these objects since the ownership can be clearly identified. All objects in space above a certain size are tracked and information about the origin country or organization can be identified.

Q: Has there been no responsibility for space debris until now?

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A: Traditionally, the space industry has maintained guidances on space debris without any clear penalties. For example, the Inter-Agency Space Debris Coordination Committee (IADC) and the United Nations guidelines for debris mitigation specify that in Low Earth Orbit (LEO), satellites should be deorbited and burn up in the atmosphere within 25 years after the end of their operation (Post Mission Disposal, or PMD).

However, in September 2022, the Federal Communications Commission (FCC) of the United States revised its debris mitigation guidelines (originally created in 2004) to require that spacecraft must be removed from orbit within five years of the end of their operation. As a result, U.S. satellites and non-U.S. satellites seeking access to the U.S. market launched after September 30, 2024, must comply with this order. This regulation is expected to significantly contribute to the growing demand for our End-of-Life (EOL) services from commercial satellite operators.

Additionally, in 2023, space debris issues were addressed at the G7 Foreign Ministers' Meeting, the Science and Technology Ministers' Meeting, and the G7 Summit. The leaders' communiqué from the G7 Summit highlighted that the sustainable use of space is an urgent issue and emphasized the need to reduce and prevent further increase in space debris. The 2024 G7 Summit leaders' communiqué also detailed efforts to establish standards and regulations for space sustainability, marking a more proactive stance on debris remediation. Consequently, it is anticipated that there will be increased regulatory measures and approvals for national budgets supporting orbital services, particularly among G7 member countries.

Q: Why are countries working on debris removal?

A: With the deterioration of the space environment, collisions between debris and satellites have already occurred, and countries are aware of the threat that debris poses to satellites they have launched. In response to this situation, countries are allocating budgets for debris removal and working towards achieving sustainable space. As of July 2024, there are debris removal projects in Japan, the UK, and Europe, and basic research is also progressing in France. In the United States, the ORBITS Act, presented as a bipartisan bill in the Senate, proposes the initiation of NASA's Remediation Demonstration Program (which includes debris removal and the promotion of debris orbital descent) and the allocation of $150 million for Active Debris Removal (ADR) from fiscal years 2024 to 2028. The bill was unanimously approved by the Senate on October 31, 2023, and is currently awaiting review by the House of Representatives. In May 2023, the G7 Leaders' Communiqué from the Hiroshima Summit expressed a commitment to address the urgent issues posed by debris and to promote the safe and sustainable use of outer space. It also encouraged countries to advance further solutions and technological development for debris reduction and mitigation. In June 2024, the G7 Leaders' Communiqué from the Italy Summit announced an encouragement for countries to establish standards and regulations to achieve sustainable space. Thus, global efforts to accelerate debris removal are gaining momentum.

Q: How is the market for OOS expanding in various countries?

A: In the Japanese market, demand is rising for ISSA missions (ADRAS-J, SBIR), which focuses on debris observation and inspection. This is leading to demand for ADRAS-J2, a follow-up mission to ADRAS-J that utilizes the observational data for debris removal (ADR). SBIR will involve a mission where a single satellite observes two different types of debris. Additionally, there is emerging demand for refueling missions, a component of the LEX services. We are currently awaiting results of our bid for K-Program, a research and development mission for refueling.

In the UK and European markets, progress is being made primarily in EOL service and ADR missions. Our company has been awarded the ELSA-M project as an end-of-life (EOL) mission and the COSMIC project as an ADR mission. We have also secured an award for basic research related to refueling missions. We anticipate the expansion of commercial EOL service and government ISAA missions in the future.

In the US market, Life Extension (LEX) service is primarily underway, with our company having been awarded the APS-R refueling mission which aims to build a refueling satellite prototype. Additionally, development is progressing on our LEXI servicer which uses proprietary capture technology to extending satellite life. We also anticipate future developments in ISSA and ADR missions.

Q: What is China and Russia's stance on space debris?

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A: The deterioration of the space environment is an urgent issue for both China and Russia, and we recognize that there have been instances where they have demonstrated a cooperative stance in international conferences. However, our company does not anticipate providing OOS to government agencies or private companies in China or Russia.

Astroscale's Technology and Service

Q: What is RPO technology?

A: RPO stands for Rendezvous and Proximity Operations, a technology for safely rendezvousing with and approaching target objects in space. Our company demonstrated RPO technology for non-cooperative objects, which cannot communicate or provide information on its position, with our debris removal technology demonstration satellite ELSA-d launched in March 2021. Additionally, in the ADRAS-J mission launched in February 2024, we performed multiple close approaches to actual debris, further confirming the effectiveness of our RPO technology. Currently, we are the only private company that has demonstrated RPO technology for non-cooperative objects.

Q: How does Astroscale remove debris?

A: Methods for debris removal differ between Low Earth Orbit (LEO) and Geostationary Orbit (GEO).

In LEO, the primary method for debris removal involves lowering the debris' altitude to re-enter the atmosphere and burn up. However, large debris, weighing several tons, may not completely burn up in the atmosphere. In such cases, a controlled re-entry technique targeting remote areas, such as large oceanic regions where human impact is minimal, may be used. Our services include EOL service, where satellites are equipped with docking plates (DP) to capture debris through magnetic means when they become defunct, and ADR, where existing large debris is captured and removed using robotic arms.

In GEO, debris is approximately 36,000 km from the Earth's surface, making it extremely energy-intensive and time-consuming to bring it back into the atmosphere. Therefore, the primary method is to move the debris to a higher orbit, around 200-300 km above the GEO orbit, known as a "graveyard orbit." Our company offers LEX services in GEO, utilizing our life extension satellites to capture client satellites and move them to a graveyard orbit. Alternatively, after providing life extension services to client satellites, we can move them directly to the graveyard orbit upon mission completion. Thus, the scope of our LEX service can be flexibly adjusted to meet various customer needs, aiming to accommodate a wide range of requirements.

Q: Which of the four services (EOL/ADR/ISSA/LEX) is driving business growth?

A: In the coming years, we plan to further demonstrate the technology of our services through government projects. However, in the long term, we anticipate expanding our business in commercial services, specifically in EOL and LEX services.

For EOL service, increased regulatory pressure from various countries and agencies is pushing private companies, particularly satellite constellation operators, to address debris issues. This has led to a growing interest in DP, which are necessary for satellites to utilize EOL service. Currently, 568 satellites equipped with DP have been launched into space, and we expect these satellites to be among the first targets for our EOL service.

Regarding LEX service, we believe there is an economic rationale for extending operational life of customer satellites. For instance, in the case of GEO satellites which cost tens of billions of yen to launch and can operate for around 15 years, it may be more economically viable to extend their operational life with a LEX service costing a few billion yen per year rather than launching a new satellite. With an expected 20 to 30 geostationary satellites decommissioned annually, we anticipate that even servicing 1 or 2 satellites per year with our services would result in a significant revenue stream for our company.

Q: The space industry is often characterized by strong nationalism among countries, but what is the background behind the Astroscale's achievements in the US and the UK?

A: Our group has subsidiaries in Japan, the UK, the US, and France, and each subsidiary is led by local experts who are deeply rooted in the space industry. Except for France, which was established last year, we have spent several years after the

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establishment of our subsidiaries in each country to assemble research and development teams, policy teams, and business development teams, as well as to set up manufacturing facilities, thereby establishing a local presence equivalent to that of local companies. By becoming deeply rooted in each country, we have been able to secure contracts, and this global structure is a significant strength of our group.

Q: The space industry is known for its high risks. How does your company manage these risks?

A: Our company aims to cover risks through customer contract clauses and where risks cannot be covered by contracts, we arrange insurance as needed. For government projects, we believe that most risks can be covered by contracts, whereas for commercial projects, we consider insurance as necessary. In the space industry, insurance options include launch insurance, third-party liability insurance, and mission insurance, which can be tailored according to the specifics of the mission. Additionally, since our company is involved in multiple missions concurrently across various regions, a failure in one mission does not directly impact the others, allowing for effective risk diversification.

Competitive Advantage

Q: What are unique strengths compared to competitors?

A: Technologically, our greatest advantage is the successful demonstration of our RPO technology in space through the ELSA-d and ADRAS-J missions. The success of these demonstrations is attributed to our strong leadership, and our rapid and flexible design and development capabilities. From a business perspective, solving the debris problem requires a global approach, and our strengths lie in our international footprint, the simultaneous deployment of four different services, and the concurrent execution of numerous missions. This enables us to accumulate technology more quickly compared to other companies. In terms of policy, having local subsidiaries that can engage directly with local government agencies and space organizations in various countries gives us a significant advantage.

Q: When is the first debris removal demonstration?

A: In April 2024, our company was selected as the contract partner for Phase II of the Commercial Removal of Debris Demonstration (CRD2), conducted by the Japan Aerospace Exploration Agency (JAXA) with the goal of demonstrating technology for large debris removal. This phase follows Phase I, which involves the inspection and observation of target objects through our ADRAS-J mission currently in operation. Similar to Phase I, Phase II will involve approach and proximity operations, obtaining additional image data, and performing debris removal through capture and deorbit. This mission is scheduled to launch in the fiscal year ending April 2028. Additionally, the ongoing COSMIC project in the UK is currently in the process of selecting the next phase's contract partner. If our company is selected, we plan to launch in the fiscal year ending April 2027.

Financial Results

Q: What is the definition of “project income”?

A: Our unique metric, project income, reflects the total income derived from all project-related activities, including both revenue from standard projects and government grant projects. Pursuant to IFRS standards, government grants are recognized as other income rather than revenue. However, regardless of the accounting treatment, the activities conducted to win and execute project remain the same. Therefore, we disclose project income as a management accounting indicator to represent the total income derived from all project-related activities. Project income captures all income generated from our business activities, making it a key metric for measuring the outcomes of our operations.

Additionally, costs related to project activities are recognized differently depending on the type of revenue: costs for projects where income is recorded as revenue are recognized as cost of sales, while costs for government grant projects are recognized as research and development (R&D) expenses.

For the fiscal year ended April 2024, we have recognized two projects, SBIR and APS-R, as government grant projects.

Q: What is “provision for loss on order received”?

A: For projects where income is recorded as revenue (i.e., projects that are not government grant projects), if a loss is

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determined at the time of project contract, provision for loss on order received is recognized as a cost item at the time of the contract. For example, if a project has a total cost estimate of 5 billion yen and the government agrees to bear 2 billion yen of the cost, 2 billion yen will be recorded as revenue over the entire project period, and 5 billion yen will be recorded as cost of sales, resulting in a gross profit of -3 billion yen. Since the loss is confirmed at the time of contract, we are required to record a provision for loss on order received of 3 billion yen at the time of contract which is then reversed over the project period to match incurred loss. As a result, a total loss of 3 billion yen occurs at the time of contract, and gross profit will remain zero thereafter, until completion of the project.

Such projects are significant for our business because the government agrees to cover a part of our costs required for us to develop technology for future use which otherwise would have been incurred in full. Therefore, even if losses occur, the projects are valuable from the perspective of future technology development.

For government grant projects, no provision for loss on order received is recorded. Instead, the government grant income and R&D expenses are recognized.

Projects for which we have recorded or plan to record a provision for loss on order received include ADRAS-J and ELSA-M (including Phase 4 awarded in July 2024), where the customer partially contributes to the costs. For future projects, including those currently under negotiation, we do not anticipate recording a provision for loss on order received. However, there may be potential for such provisions in future projects involving new countries or organizations, or significant new technology developments.

Q: What is the background behind the significant difference between the order booking and the expected order backlog?

A: The expected order backlog exceeds the order booking due to the inclusion of projects that are yet to be contracted but have been confirmed for future contract, such as ELSA-M Phase 4, ADRAS-J2, and SBIR Phases 2 & 3. ELSA-M Phase 4 and SBIR Phases 2 & 3 are anticipated to be secured by our company since no other competitors remain in the process (ELSA-M Phase 4 was contracted in July 2024). For ADRAS-J2, our company was selected in April 2024, and discussions are currently ongoing to finalize the contract. Considering these factors, the expected order backlog exceeds the order booking.

Q: What are the main components of cost of sales?

A: The largest components of cost are material costs, labor costs, and outsourced costs such as launch expenses and fees for external collaborators. In the future, the company aims to achieve a gross profit margin in the mid-30% range.

Q: What is the breakdown of the R&D expenses (5 billion yen) for the fiscal year ended April 2024?

A: The R&D expenses include pure R&D costs, advance procurement for future projects, and costs related to government grant projects. Pure R&D costs are relatively small, with the remaining two components being approximately equal. A significant portion of the advance procurement costs is associated with the LEXI-P project, which is expected to be awarded in the fiscal year ending April 2025. Once awarded, these costs will be transferred to cost of goods sold, so they are expected to cease from the fiscal year ending April 2026. Costs related to government grant projects, such as SBIR and APS-R, are expected to continue for the next few years until these projects are completed.

Q: When is breakeven expected?

A: We aim to bring our gross profit close to the breakeven point in the fiscal year ending April 2025. This improvement is based on the assumption that while many of our projects so far have been partially-funded, the majority of projects we plan to secure in the fiscal year ending April 2025 will involve fully-funded projects, which is expected to improve the revenue mix.

Furthermore, we anticipate that operating profit will see an increased loss year-over-year for the fiscal year ending April 2025 due to higher R&D expenses and increased selling, general, and administrative (SG&A) expenses. However, we aim to achieve breakeven in the fiscal year ending April 2026 through improvements in the aforementioned revenue mix. Please note that there is a risk this timeline may be affected by factors such as delays in contract timing, unexpected issues, or new projects.

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Capital Policy

Q: Will there be a need for capital raises in the future?

A: We believe that the funds raised during the IPO will cover the capital needed to reach breakeven in free cash flow according to our business plan. However, if there are new projects not included in the business plan, such as M&A or increased cost from new projects, there may be a possibility of raising additional funds. On the other hand, we have established good relationships with lenders who we engage in loan arrangements as needed based on the nature of the projects.

Others

Q: Are you considering offering shareholder benefits (e.g. gifts etc.) in the future?

A: At this time, we are not considering any added shareholder benefits.

Q: How do you recruit your personnel?

A: As of June 2024, over 70% of our employees are engineers. We conduct recruitment based on project needs, and despite the general shortage of talent in the space industry, we have been successfully attracting skilled personnel. This success is attributed to our mission's appeal, our global business scope, and the uniqueness of our technology.

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