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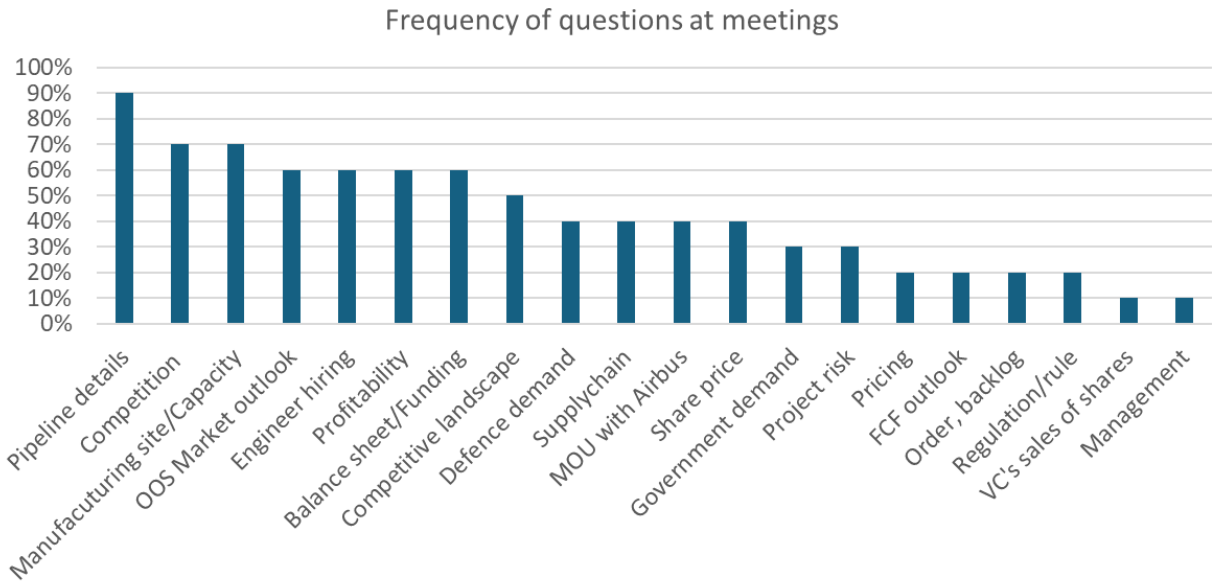
Company Name: Astroscale Holdings Inc.
Representative: Mitsunobu Okada
Representative Director, President and CEO
(Securities Code: 186A; Tokyo Stock Exchange Growth Market)
Contact: Nobuhiro Matsuyama
Director and CFO
(Tel. +81 3-3626-0085)

Frequently Asked Questions and Answers (Mizuho Securities Japan Alpha Conference 2024)

Regarding the meetings held with institutional investors at the Japan Alpha Conference 2024 hosted by Mizuho Securities on September 4 and 5, 2024, we disclose below the main questions and our answers. Please note that we have omitted any content that overlaps with the "Frequently Asked Questions and Answers (Financial Results of Fiscal Year Ending April 30, 2024)" (dated August 8) in relation to the full-year financial results for FY2024 and the "FY2025 First Half Business Update Q&A Transcript and Supplementary Information" (dated August 22), both of which were previously disclosed.
Additionally, for reference, we also present the frequency of questions as follows, calculated as the number of times asked over the total number of meetings.



Business Environment

Q: What services are expected to be in demand for on-orbit servicing (OOS) in the future?

A: In addition to commercial demand for services such as EOL (End-of-Life Services) and LEX (Life Extension Services), there is also growing demand from defense agencies in many countries. We are optimistic about accessing government defense budgets through our local offices in five countries around the world.

Q: What are the business opportunities related to the Japanese government?

A: Government projects often start with a study phase or a preliminary technical review phase. The government usually allocates budget for a project based on the results of these investigations. This budgeting process typically takes 1 to 2 years, after which an RFP (Request for Proposal) is issued, leading to the bidding phase. The RFP process is relatively short in Japan and the U.S., generally taking 6 to 9 months, but may take longer in Europe. Therefore, we usually have some visibility into government project opportunities in advance, and the likelihood increases as the timing approaches. We have received many questions from investors about pipeline after April 2026. Currently, there are many projects progressing behind the scenes. We will announce them promptly once selection or formal contracts are concluded.

Q: What are your expectations for the JAXA Space Strategy Fund?

A: With the acceleration of competition for international space technology development, on-orbit servicing represents a promising market and is included in the space technology strategy developed by the Committee on National Space Policy. The Space Strategy Fund supports a broad range of projects, from those with low technology readiness levels (TRL) to those with higher TRLs. If themes aligned with our group's business are announced by the Space Strategy Fund, we intend to actively submit proposals.

Q: What is the outlook on defense-related demand?

A: We are particularly optimistic about demand related to ISSA (In-Situ Space Situational Awareness) and LEX. We already secured contracts from four defense agencies around the world. For example, in the past, satellites could not operate once their fuel was depleted after launch. However, with the establishment of refueling technology, it will become possible to develop and operate satellites with refueling in mind, leading to an expected increase in the use of OOS. As a result, we anticipate that budgets for new technologies will increase in the future, and we are looking forward to these business opportunities.

Astroscale's Business

Q: What is the business outlook beyond 2030?

A: By 2030, we anticipate that OOS will no longer be a special service and become routine. We expect expansion across all three customer segments: government, defense, and commercial. We foresee business growth in the countries where we are already established. In the future, government-related demand is expected to expand first, followed by an increase in defense-related demand. Our rendezvous and proximity operations (RPO) technology is already being considered for use in defense strategy planning, and we also expect growth in commercial demand thereafter.

Q: Is there any potential to collaborate with Airbus Defence and Space (Airbus) in OOS based on the MOU announced in August?

A: Depending on the services required by clients, there may be systems that cannot be handled by our company alone. In such cases, collaborating with Airbus may enable the development of the necessary systems, with our company focusing on aspects related to RPO technology. Therefore, we expect continued business opportunities through our collaboration with Airbus.

Q: What is the outlook for recurring business and revenue opportunities?

A: Since requirements for government-related projects is unique to each situation, our typical approach is project specific. On the other hand, we anticipate recurring projects and revenue opportunities for services such as refueling for defense agencies and EOL or LEX services for the private sector. In these cases, the business model will be service-oriented, benefiting from economies of scale, which should also improve profit margins.

Astroscale's Technology and Competitive Environment

Q: While ADRAS-J successfully observed debris, will ADRAS-J2 be able to actually capture and remove debris?

A: In OOS, both approach and capture technologies are required, with the approach technology being the most challenging. While competitors have failed to demonstrate rendezvous, our company has already succeeded in two demonstrations already. We possess two capture technologies: magnetic capture and robotic arm capture. Magnetic capture has been demonstrated on orbit with ELSA-d, and we plan to use magnetic capture for docking with a real satellite in FY2026 through the ELSA-M mission. For robotic arm capture and removal, these will be carried out in the ADRAS-J2 mission. Although this has not yet been demonstrated in space, we have passed ground-based simulation tests with the support of JAXA and have formally secured the ADRAS-J2 contract. Therefore, the development of component technologies is on track, and we plan to launch in FY2028 and conduct the capture and removal demonstration mission in space.

Financial outlook and financial information

Q: When does Astroscale expect free cash flow (FCF) to become positive?

A: In terms of profitability, we aim to reach near break-even levels for gross profit in FY2025 and operating profit in FY2026. We target achieving positive FCF by the following year, FY2027. According to our current business plan, the ¥20.1 billion raised from the recent IPO should be sufficient to cover the period until FCF breakeven. However, if we see a surge in projects not currently included in the business plan, face delays, or identify attractive acquisition opportunities, we may consider raising additional funds from the equity market, after explaining the potential benefits and returns to investors.

Q: What is the time frame for recognizing revenue from the order backlog ?

A: For the expected order backlog of ¥28.5 billion as of the end of April 2024, we anticipate revenue recognition over 2 to 4 years, depending on the duration of the projects.

Others

Q: What is the future hiring plan? Compared to other Japanese space companies, Astroscale seems to have a relatively large workforce.

A: We have aimed to simultaneously establish operations in key countries, building organizations that not only handle sales but also design, development, manufacturing, operations, management functions, etc. in all major locations. This strategy led to hiring as part of our upfront investment in these regions. Now that our main hubs in Japan, the U.K., and the U.S. are fully operational, future hiring will primarily focus on engineers in response to project awards. Therefore, we do not expect headcount growth to match the rate of top-line growth going forward.

Q: With manufacturing bases in various countries, how does Astroscale manage supply chain efficiently?

A: For government projects, there are often requirements to utilize supply chains from specific regions, such as Japan, the U.K., Europe, or the U.S. We ensure optimal operations that meet these conditions. Additionally, we mitigate supply chain risks by promoting in-house manufacturing and adopting commodity parts where feasible.

Q: Considering the rapid growth, are there any risks related to production capacity?

A: In the space industry related to OOS, short lead times of a few months are rare, allowing sufficient preparation time. For government projects, the timeline from preliminary study to budgeting and the bidding process is clear, enabling us to plan production capacity and staffing accordingly. By 2023, we had already expanded production capacity across our locations, and we do not foresee any bottlenecks in production capacity for the next few years. While the hiring of engineers could pose a risk, recruitment is currently proceeding smoothly and is not a significant concern.

Q: Since Astroscale is building up the teams simultaneously in multiple countries, it seems that the business portfolio is diversified in terms of risk. What other risks does the company foresee?

A: We face a variety of risks. Regarding launch risk, although the probability of launch success has improved in recent years, failures still occur at a rate of approximately 5%. To manage this risk, we sometimes use launch insurance when necessary, balancing with our cash flow considerations. For risks related to mission failures or damages to third parties, we conduct detailed simulations to minimize risks and have experience forming insurance tailored to specific projects. Additionally, for project delays, we set aside reserves for each project, allowing us to cover costs in the event of certain delays. Another growth-related risk is talent acquisition. The entire space industry currently faces a shortage of talent, but our recruitment of engineers has been relatively smooth. This success can be attributed to the growing popularity of OOS, the appeal of our unique RPO technology, and the flexibility in regional hiring due to our global presence. To mitigate talent acquisition risks, maintaining the company's attractiveness through continuous business expansion is crucial.

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