Financial Results Material for FY24/12 Q1

ACSL Ltd (TYO: 6232)
May 15, 2024

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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]	86 (as of Dec 2023)
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. **59**%

# of Non-Japanese

Approx. **20**%

ISO

2

ISO9001 (Quality Management)
ISO27001 (Security)

Client

230

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 Q1. All figures do not include group companies
2: Voluntary retirement program was implemented in February 2024, and 24 employees left at the end of March.

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1. Market / Mission / Growth strategy

2. FY23/12 Q1 results and highlights

3. Appendix

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MISSION

Liberate Humanity Through Technology

VISION

Revolutionizing Social Infrastructure By Pursuing Cutting-Edge Robotics Technology

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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

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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

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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

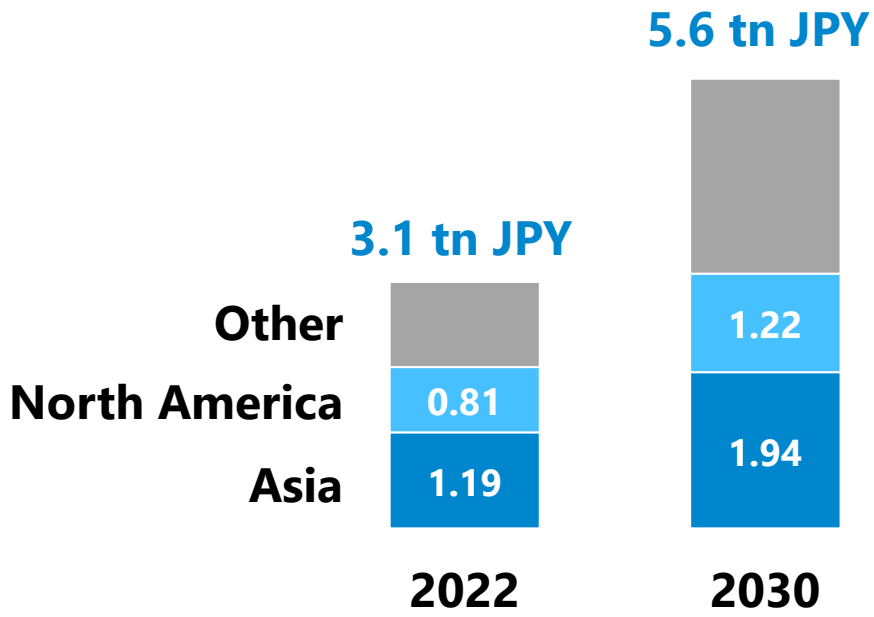
Drones recognized as a tool for decarbonation and EV. Drones are considered to work together with trucks in logistics field

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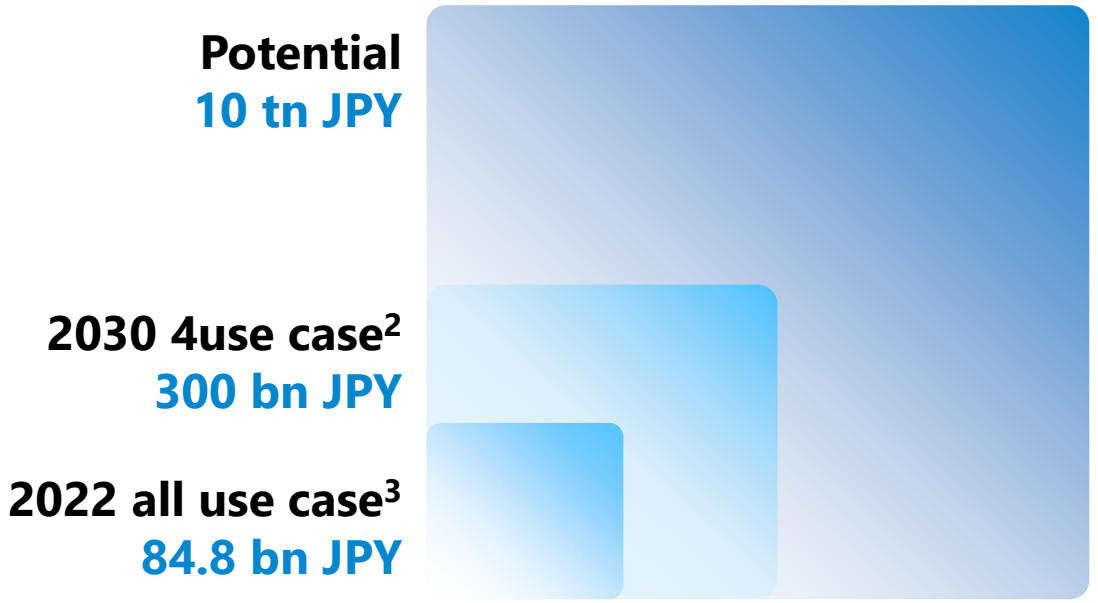
Drone market size

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"

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ACSL Competitive Environment

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

	Japan	US	Our Expansion
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	

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.

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Who we are

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

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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





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Select and Focus：Target domain with strong competitiveness

Conduct immediate 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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FY23/12 Q4 results and highlights

Summary

Sales are strong, and 85% of FY24 target has been ordered. Orders are expected to be booked in the second half of year.

Marginal profit margin will remain high. Cost reduction effects of business reforms are expected to emerge from Q2 onward.

Sales

Sales

288 mn JPY

YoY -33%

Backlog

2.85 bn JPY

Sales decrease due to a shift of booking to the second half of year, including large procurements for the Ministry of Defense. Backlog is strong, achieving 85% of FY24/12 target.

Profit rate

Gross profit rate

13%

YoY -2pt

Marginal profit rate

60%

YoY -2pt

Marginal profit margin remained high despite a YoY decline. Gross margin deteriorated due to lower sales.

Operating income

-594 mn JPY

YoY -237 mn JPY

Cost reduction effects of business reforms are expected to be recognized from Q2 onward; SBIR R&D expenses are recorded as expenses upfront.

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FY24 financial plan and Q1 Results Summary (Consolidated)

FY24 Q1 sales and profit outlook is favorable relative to the annual target

[mn JPY]	FY24 Numerical Plan				FY24/12 Q1 Results	summary
	After transfor-mation	India Large projects	SBIR (Gov. Project)[1]	Total		
Net sales	1,500	+1,840	-	3,340	288	■ With backlog, 85% of FY24/12 target achieved
(Incl. Backlog)					(2,855)	■ Large-scale projects such as the MoD, booking are weighted toward the second half of year
Gross profit	70	+40	-	110	36	■ Maintained high marginal profit margins
Gross profit ratio	5%	-	-	3	13%	
SG&A	1,570	-	+1,600	3,170	631	■ Increase due to R&D expenses related to SBIR
(inc. R&D, US subsidiary)					(incl. SBIR 158)	■ R&D expenses excluding SBIR remained at the same level as in the same YoY
Operating profit	▲1,500	+40	▲1,600	▲3,060	▲594	■ Extraordinary loss was recorded for special severance payments due to the implementation of voluntary retirement program
Ordinary profit	▲1,500		+1,200 (Non-operating income)	▲1,860	▲589	
Net Profit	▲1,575			▲1,935	▲656	

1: Income recognition to be booked for non-operating income as a subsidy at the timing when the expenditure amount is confirmed after inspection by the METI. In FY24, the expenditure by FY24/Q3 is planned to be booked. Expenditures from FY24/Q4 to be booked after 2025

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FY24/12 Q1 Results compared to previous year

Sales declined YoY, but backlogs remained higher than YoY.
Operating income decreased due to SBIR R&D expenses and expenses for U.S.

[mn JPY]	FY24/12 Q1 Results	FY23/12 Q1	FY23/12 Annual	YoY	summary
Net sales	288	429	896	▲140	■ Decrease YoY due to the shift of booking to the second half ■ The backlog for the domestic market was 462 mn JPY, up 84% (+210 mn JPY) YoY , and progressing steadily
Gross profit	36	62	▲235	▲25	■ Marginal profit margin remained high, but gross profit margin deteriorated due to sales decline
Gross profit ratio	13%	15%	▲26%	▲2pt	
SG&A (inc. R&D, US subsidiary)	631	419	1,836	211 (incl. SBIR 158)	■ SG&A increased by 211 mn JPY YoY. Of this amount, 158 mn JPY was R&D for SBIR. Excluding SBIR, R&D remained at the same level YoY
Operating income	▲594	▲356	▲2,071	▲237	■ Deteriorated YoY due to lower sales, SBIR R&D expenses and SG&A expenses of U.S. subsidiary
net income	▲656	▲425	▲2,543	▲231	■ Special severance payments for voluntary retirement program

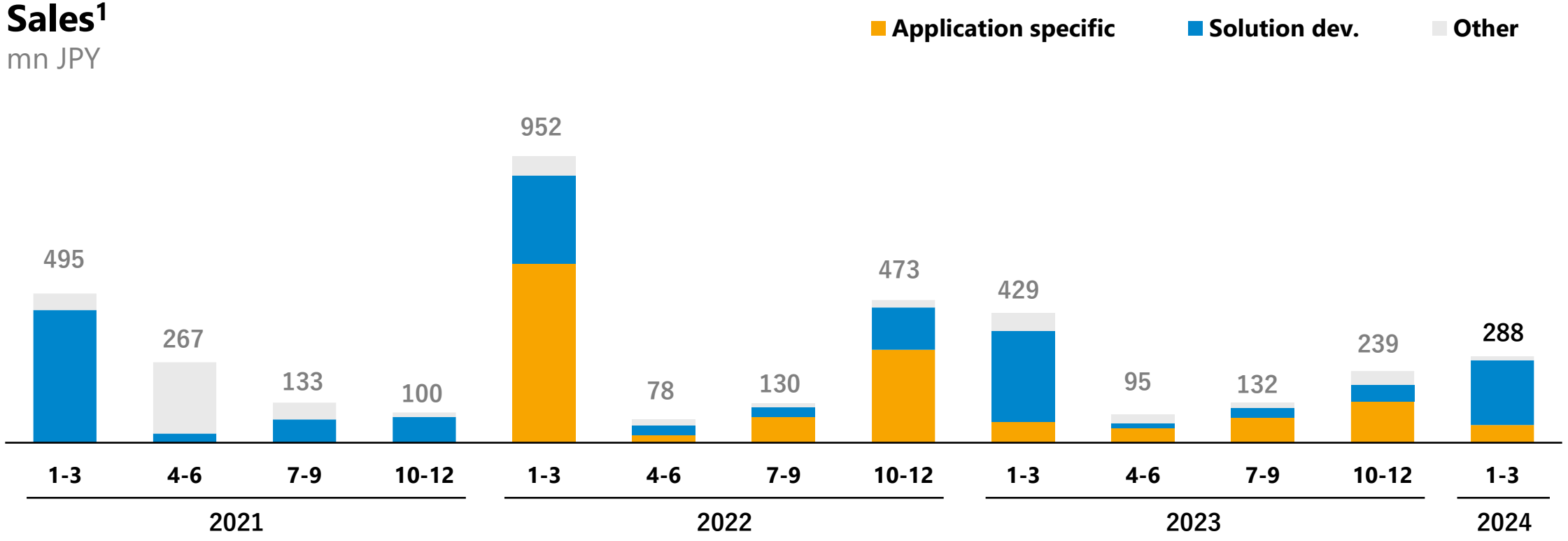
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Quarterly Net Sales

Decreased YoY due to the shift of sales booking to the second half of the year.

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

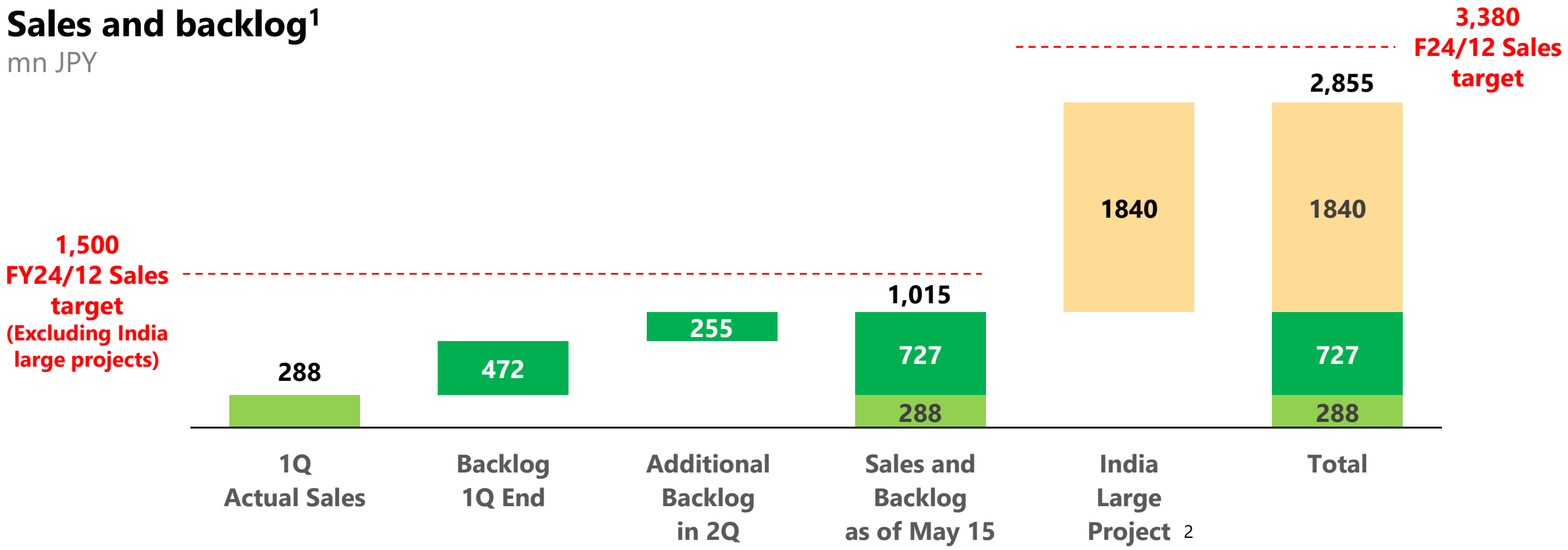
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FY24/12 1Q End Backlog

About 1.0 billion yen backlog at present against the 1.5 billion yen target (excluding India) for the current fiscal year.

Sales and backlog[1]

mn JPY



1: Backlog is the total value of orders received as of May 15, 2024 (the date this report was released)
2: Calculated at 1 US dollar (USD) = 135 JPY

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Winning orders by leveraging our strengths in areas of high economic security interest

In addition to the large SOTEN 370 million yen order from ATLA[1], also adopted as a drone for aerial photography by the JASDF[2]

Received large project orders at the ATLA

- In the domestic aerial photography sector, we focus on government procurement, where there is a strong need for replacement with secure domestic drones[3] in response to growing economic and security concerns
- Received a major contract worth 370 mn JPY in a bidding conducted in March 2024 by ATLA, an external bureau of the MOD[4], and scheduled for delivery this year

Expanding adoption by defense sector

- Announced in March 2024 that our domestic drone has been adopted as an aerial photography drone by JASDF of MOD
- Approved as the first drone manufacturer to become a full member of the Japan Defense Equipment Industries Association[5] in April 2024





1: ATLA (Acquisition, Technology & Logistics Agency)
2: JASDF (Japan Air Self-Defense Force)
3: In Japan, the "Policy on Procurement of Unmanned Aircraft by Government Agencies, etc." was announced in September 2020, announcing the government's policy to "limit procurement to drones with guaranteed security" and to "promptly replace existing drones" ("Policy on Procurement of (Policy on the Procurement of Unmanned Aircraft by Government Agencies," September 14, 2020, Liaison Conference of Relevant Ministries and Agencies Concerning Small Unmanned Aircraft)
4: MOD (Ministry Of Defense)
5: The Japan Defense Equipment Industries Association was established for the purpose of contributing to the further promotion of the defense equipment industry, and most of the major companies involved in the manufacture or repair of defense equipment are members.

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Status of overseas expansion

In the U.S., sales and marketing activities are in full swing and have generated significant interest. Solid progress toward reaping demand in Taiwan and India

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[1] compliance and competitive pricing have earned high interest and expectations from equipment inspection companies in the U.S.**

Taiwan sales structure established

- **Recognized as possible for business implementation through local exhibition participation and customer demonstrations**
- **Signed a distributor agreement for 2023, and plan to collaborate in product sales and sales expansion**

India large project order received

- **Order received worth 13.6mn USD (1.84bn JPY)[2] from a local partner**
- **Export permit received and partial products shipped. Sales will be booked in FY 24**

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.
2: Calculated at 1 USD = 135 JPY

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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

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



50 units delivered to GenPac

Volatus Drones
New York

Unmanned Vehicle Technologies
Arkansas

Gresco Utility Supply
Georgia

Frontier Precision
Florida

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SOTEN exhibit at XPONENTIAL '24[1], the world's largest drone exhibition

High interest acquired from US equipment inspection companies, where economic security and de-Chinese products are increasingly in demand

Attention and expectations for SOTEN

SOTEN gained high evaluation among U.S. equipment inspection companies such as electric utilities for its NDAA compliance, reasonable pricing, and plans to offer an open software development kit (SDK)

Economic Security and Non-China in the U.S.

In 2023, AUVSI[2] launched a new security certification, the Green UAS program[3], to evaluate and confirm that commercial drones meet the highest levels of cybersecurity and NDAA supply chain requirements



More than 100 companies visited ACSL booth



U.S. subsidiary executives speak at the event

1: XPONENTIAL is one of the world's largest exhibitions organized by AUVSI, the world's largest association in the field of advanced autonomous systems and robotics, based in the United States
2: AUVSI (Association for Unmanned Vehicle Systems International) is the world's largest non-profit organization dedicated to the development of unmanned systems and the robotic society
3: https://www.auvsi.org/auvsi-launches-green-uas-cybersecurity-certification-program-commercial-drones

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Delivery with a new drone jointly developed with Japan Post

Conducted Level 3.5 flight[1] with a newly developed drone, further advancing the practical application of drone delivery in mountainous areas.

Background of co-development with Japa post

- In June 2021, ASCL signed a business alliance agreement with Japan Post and Japan Post Capital to develop a dedicated logistics drone
- Aiming to solve the issues faced by social infrastructure in terms of labor shortage, aging population, and rapid increase in business operations

Overview of new drone

- Emphasis on design for ease of logistics operations and social acceptability
- Cargo can be easily stowed from the top and automatically detached from the bottom upon arrival.
- Design and specifications designed to obtain type certificate for Level 4
- Increased payload weight (4.5 kg) and maximum flight distance (35 km) compared to current model



New drone (called JP2)

1: In the Level 3.5 flight, entry control measures (placement of assistants and signs) required in the conventional Level 3 flight have been eliminated through the use of digital technology, allowing crossings over roads, railroads, etc. on a conditional basis.

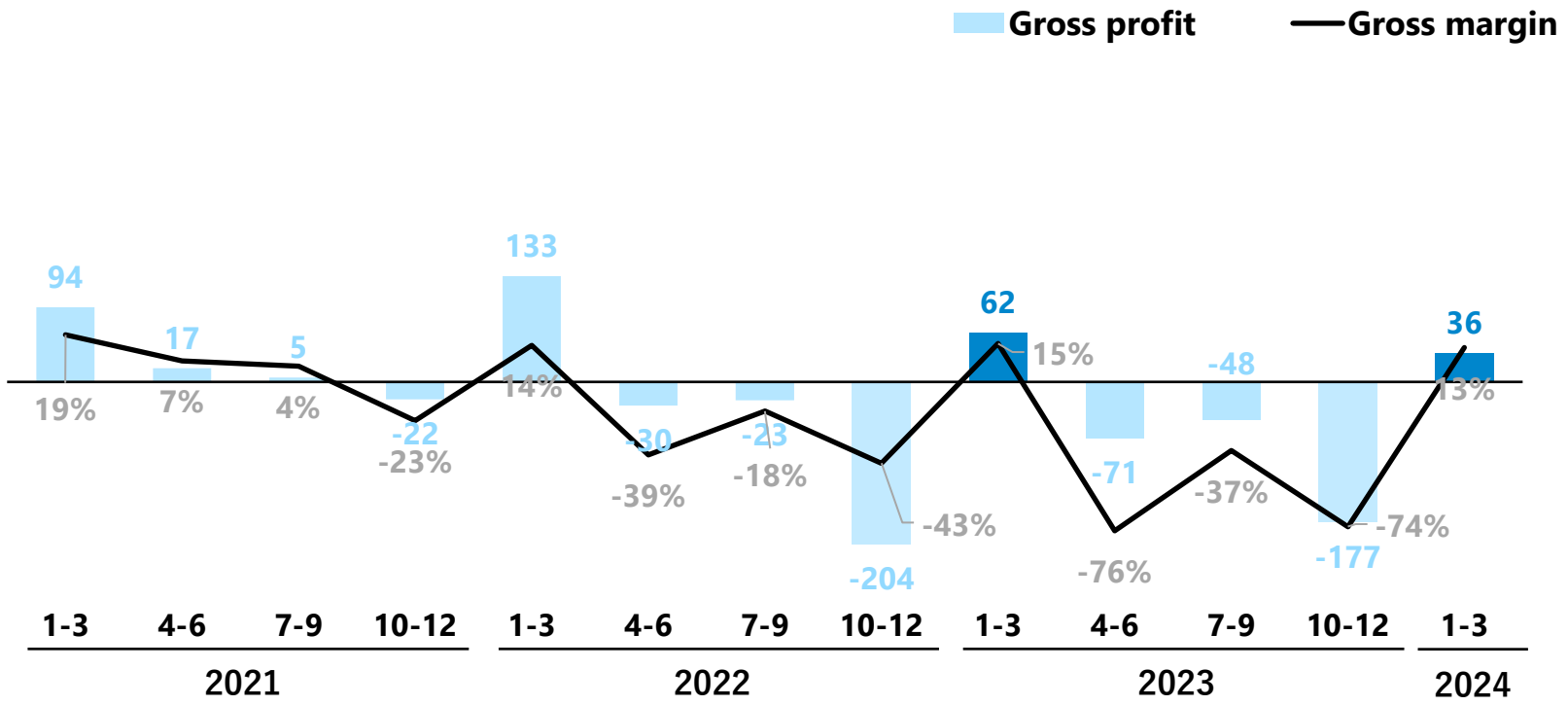
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Gross Profit and Gross Margin

Gross margin improved from Q4 of the previous fiscal year, and gross profit became positive. Gross profit and gross margin declined YoY due to lower sales

Gross Profit and Gross Margin[1]

mn JPY



- Gross profit margin improved from FY23/12 Q4, and gross profit was posted in the black
- YoY, gross profit declined due to lower sales, and gross profit margin deteriorated by 2 pt.
- 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

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Marginal profit ratio by segments[1]

SOTEN and Solutions maintain marginal profit ratio of about 40% and 60% or more, respectively.

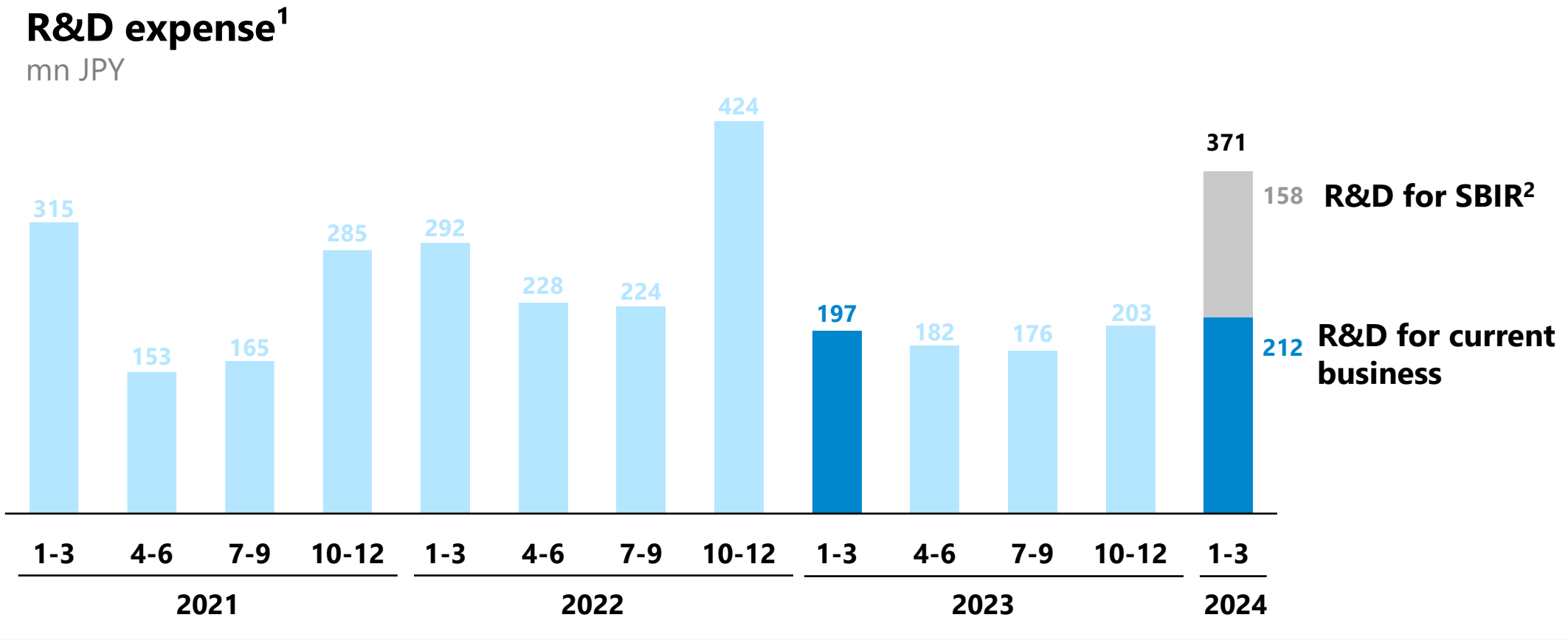
		FY22/12 Full Year	FY23/12 Full Year	FY24/12 Q1 Results
SOTEN (Aerial photography)	Sales (100 mn JPY)	9.3	2.0	0.4
	# of drones (units)	645	101	31
	Marginal profit ratio (%)	20	46	39
Solution Development (Proof-of-concepts trials, sales of prototype drone)	Sales (100 mn JPY)	5.0	3.3	2.1
	Marginal profit 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.

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R&D expense

Overall increase due to R&D expenses related to SBIR[2].
R&D for current business remained at the same level YoY



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

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Awarded 2 national projects for technical development

Award SBIR to develop next generation of aerial photo drone with budget of 2.6bn JPY. Additional 1bn 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 and quickly bring innovative and superior technology to social implementation.	■ 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 and feedback from the market, 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 ■ Establishment of distributed control technology that enables highly autonomous flight and group flight even in unknown environments where GPS is not available.	■ Period：Apr 2024 ~Mar 2028 ■ R&D subsidy：Max 1 bn JPY[2]

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

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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 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.
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	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. We have already finished selling from the distributor and are discussing new sales for 2024. With the exhibition of XPONENTIAL, we expect to gain high interest and expectation from equipment inspection companies such as electric power companies in the U.S., and expect to build up demand.
Overseas	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 expect to sell this term. The products we plan to sell are SOTEN and PF2.
Overseas	The content, scale, profitability, and acceptance timing of the large project in India	We have received an order for a project to procure and supply ground running robots for 13.6 mn USD (1.84 billion yen) from an Indian partner company. We proceeded with export approval procedures and risk assessments and carried out the some delivery without any problems. We are proceeding with acceptance work locally and expect to record it after Q2 FY24.

1 USD = 135 JPY

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FAQs 2/3

Item	Question	Answer
Outlook	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 implemented in February from Q2.
Outlook	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, and sales in Taiwan are expected to start.
Outlook	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.
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.
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.

1 USD = 135 JPY

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FAQs 3/3

Item	Question	Answer
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.

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Balance Sheet

Mn JPY	FY24/12 Q1 Actual	FY24/12 Q1 YoY change to same period previous year	FY23/12 Q1 Actual	FY23/12 Actual
Current assets	5,434	＋34%	4,057	4,203
Cash	2,274	＋37%	1,661	1,499
Fixed assets	944	▲33%	1,415	891
Current liabilities	2,074	＋84%	1,127	1,603
Fixed liabilities	2,675	＋88%	1,426	1,227
Total liabilities	4,749	＋86%	2,554	2,830
Net assets	1,628	▲44%	2,918	2,264
Total assets	6,378	＋17%	5,472	5,094

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Major financial items by year

mn JPY	Accounting Period[1]	FY19/03	FY20/03	FY21/03	FY21/12	FY22/12	FY23/12	FY24/12 1Q
Sales		807	1,278	620	501	1,635	896	288
Small aerial photography drone (SOTEN)	Amount	-	-	-	-	939	206	46
	Units					645	101	31
Other application-specific drone	Amount	-	-	-	-	73	132	12
	Units					18	26	1
PoC and Development	Amount	293	866	370	124	397	337	192
	# of project	81	112	82	41	71	52	18
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	13
Gross profit		403	808	68	0	▲124	▲235	36
Gross margin		50%	63%	11%	0%	▲8%	▲26%	13%
SG&A expense		733	792	1,207	1,189	2,079	1,836	631
R&D expense (Out of SG&A)		366	275	583	604	1,168	759	371
Operating profit		▲330	15	▲1,139	▲1,188	▲2,203	▲2,071	▲594

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

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

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

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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

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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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