Business plan and Growth potential

ACSL Ltd (TYO: 6232)
February 13, 2025

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Company outline

Corporate Name	ACSL Ltd.	
Established	November 2013	
Location	3-6-4 Rinkai-cho, Edogawa-ku, Tokyo Hulic Kasai Rinkai Bldg. 2F	
Description of Business	Manufacture and sale of commercial drones and provision of solution services for unmanned and IoT applications using autonomous control technology	
Management Team	Representative Director, CEO	Satoshi Washiya
	Board Director, CFO	Kensuke Hayakawa
	Board Director, COO	Shoji Terayama
	ACSL, Inc. (US subsidy) Board Director, CEO	Cynthia Huang
	ACSL, Inc. Board Director, Global CTO	Chris Raabe
	Director (External), Audit and Supervisory Committee Member	Kentaro Shizuka
		Kaori Nejihashi
		Ayumi Daimon

No. of Employee (consolidated) 55 (as of Dec 2024)

Ratio of engineers

Approx. **64**%

# of Non-Japanese

Approx. **25**%

Group Companies

ACSL, Inc. (U.S. subsidiary)
ACSL India Private Ltd (India JV)
ACSL Limited Liability Partnership 1(CVC)



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MISSION

Liberate Humanity Through Technology

VISION

Become a partner for those that build safety and security around the world

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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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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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Drone market value-chain and where ACSL stands

Customization and technical verification according to customer requests, and production and sales of mass-produced drones

Value chain	Prototyping (PoC)	Mass production	Operation and implementation support
Outline	■ Verify the usability of the drone at clients	■ Introduction and deployment of drones at actual customer sites	■ System extension for data analysis and operation for each application
Role of ACSL	■ Verify through PoC whether drones can be used for operations. Custom development in response to customer requests	■ Development, production and sales of mass-produced drones. Response to market feedback after sales	■ Integration with applications from other companies ■ Maintenance, parts sales, etc.
ACSL Profit Structure	**Sale：** ■ Determined based on the scope of each project **Costs：** ■ Personnel costs for development, outsourcing costs for custom development, production cost of drones	**Sale：** ■ Drone unit sales **Costs：** ■ Material and assembly cost of drones	**Sale：** ■ Continuous sales from maintenance, parts sales, training, etc. **Costs：** ■ Parts material costs, labor costs for maintenance and training

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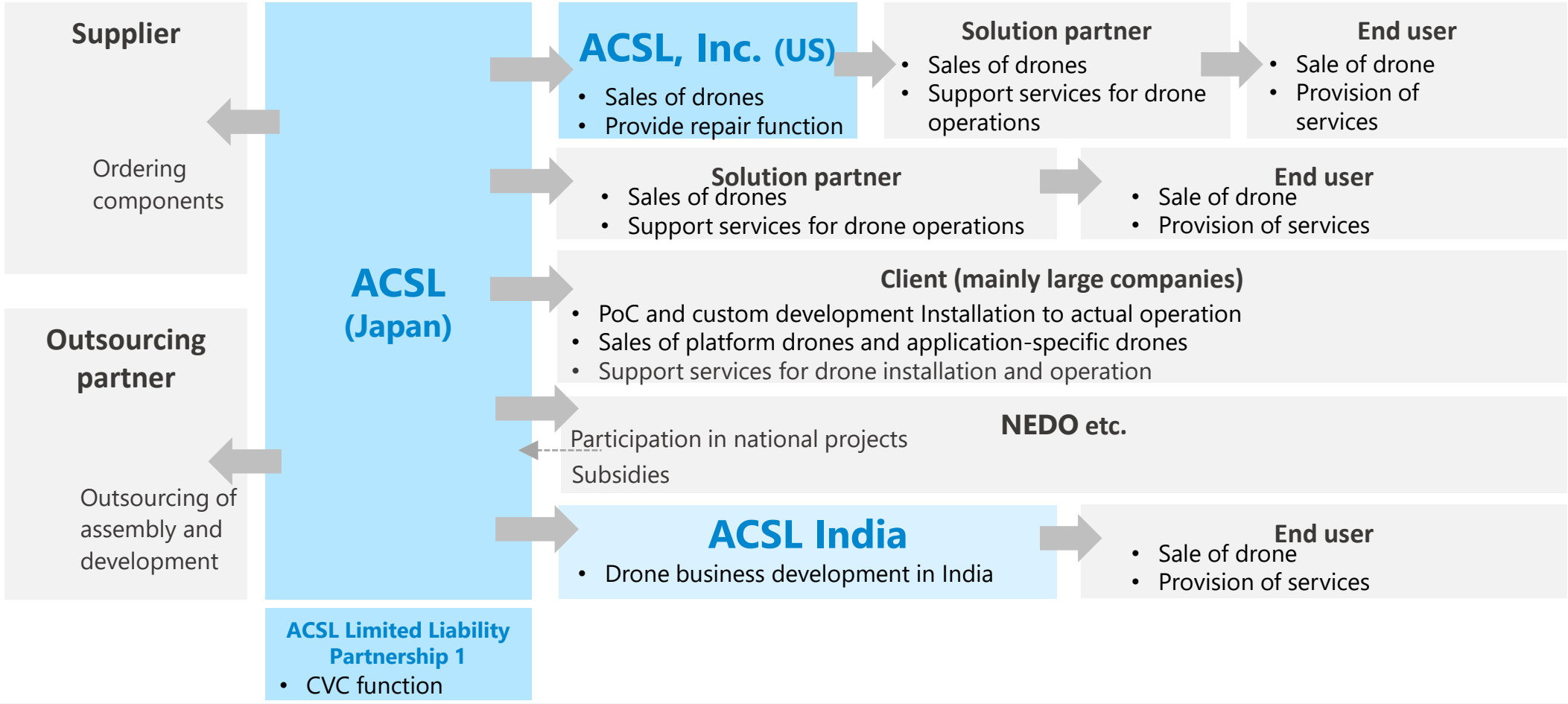
ACSL - Business Model

The main source of revenues is from the provision of demonstration services and the sale of drones our clients



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Competitive advantages of ACSL

Strong technical capabilities centered on control technology, customer support, and the ability to expand globally

Industry-leading technology

- High performance achieved through **advanced proprietary control technology**
- **Established mass production** structure for small aerial photography drones
- High technical capabilities having obtained **the only Level 4 type certification**

Customer relations

- **Extensive customer base, accumulated operational know-how**, abundant experience in demonstrations and sales results
- **Customization and new function development** based on specific use cases
- Speedy **support and extensibility to other companies' applications**

Global expansion capability

- **Aircraft development compatible with economic security**
- Hiring top-class engineers for any nationality and **building a highly skilled technical team**
- Experienced team in the **US market** for many years, **adapting to the needs of the local market**

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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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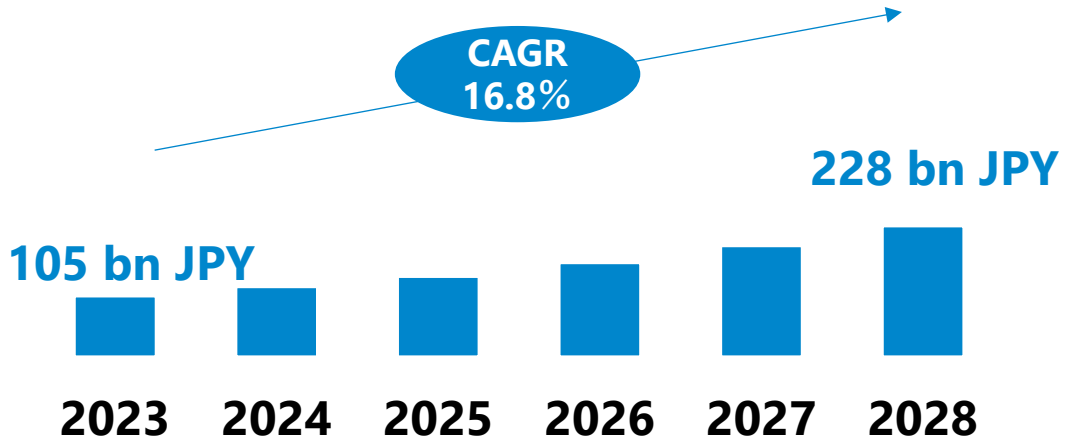
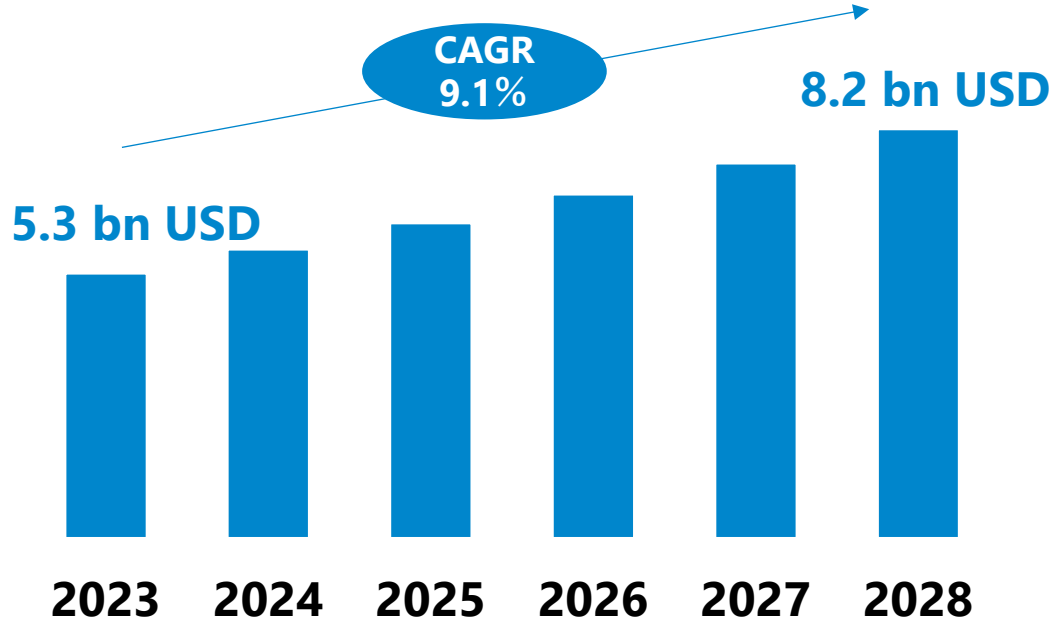
Drone market size

The drone market is expanding rapidly and is expected to exceed 1 tn JPY by 2028 in Japan and U.S. combined

Japan drone hardware market[1]



US drone hardware market[2]



1: Impress Research Institute “Drone Business Report 2024”
2: Grand View Research 「U.S. Commercial Drone Market Size & Share Report, 2030 」

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ACSL Competitive Environment

Chinese drones are being replaced in both the Japanese government and U.S. industry and government sectors

ACSL Target

	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 European manufacturers have not become mainstream, and ACSL receive high evaluation
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 (Disaster prevention, public services)	Foreign-made drones (mainly made in China) are the mainstream. **Security compliant drones are replacing.** 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 European-made drone have not been mainstream, and ACSL plans to expand in the future
Military	Included in the above for government	U.S. and European manufacturers are most focused

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US drone market environment

Regulations for Non-Chinese drones in the U.S. are materializing, and demand for NDAA[1] compliant drones is high

Changes in Regulations on Drones in the U.S.

2020
- DJI added to entity list as product may affect U.S. national security

2024
- Countering CCP Drones Act (a bill to combat the use of China drones) introduced and passed in the U.S. House of Representatives

2025
- By the end of 2025, if the National Security Agency determines that Chinese drones pose a national security risk, or if the Chinese manufacturer does not provide the necessary information and an evaluation is not possible, in either case, there is a possibility that the sale of Chinese drones will be banned[2]

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
- Considering transition from Chinese drones by the end of 2025 in response to the most recent regulatory announcement
- 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.
2: https://www.govinfo.gov/content/pkg/CPRT-118HPRT57838/pdf/CPRT-118HPRT57838.pdf; Section 1709

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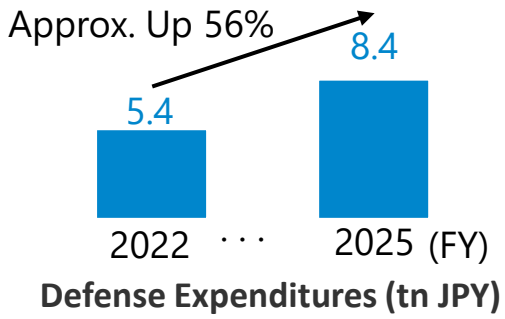
Japanese drone market environment

Defense and logistics applications of drones are expected to expand in Japan

Defense Sector[1]

- **Defense budget has increased significantly in recent years, by about 50% increase in 2022-25**
- **In one of the seven areas of capabilities to focus on, "Unmanned Asset Defense Capabilities," aiming to strengthen capabilities using drones**
- **The FY2025 budget proposal includes approx. 111 bn JPY for "Unmanned Asset Defense Capability "[1]**



Defense Expenditures (tn JPY)

Logistics Sector

- **New regulation on Level 3.5 established in December 2023 (partially relaxed requirements for Level 3, which is beyond-visual-line-of-sight flights in unmanned zones)**
- **After the introduction of Level 3.5, verification tests for social implementation of drone logistics accelerated, especially in underpopulated areas**
- **Participated in many Level 3.5 demos, in addition to Level 4 demos**



Provided aircraft for KDDI Smart Drone drug delivery verification[2]

1: Ministry of Defense, "Progress and Budget for Fundamental Reinforcement of Defense Capabilities: Overview of the FY2025 Budget Bill". This includes unmanned assets other than unmanned aircraft.
2: KDDI Smart Drone website

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Review of Business Strategies of Medium-term Management Policy ACSL Accelerate FY22

	Strategy in the mid-term management policy
Development and commercialization of four application-specific drones	Productization of small aerial, mid-sized delivery (Level 4), smokestacks, and pipes
Development of new application drones and compliance with security	Identifying new applications to develop and making all drones secure compliant
Full-scale launch into the Indian market	Establishing an office in India, hiring local talents and initiating commercial activity and local production
Reinforce ESG initiatives	Strengthening current ESG initiatives and communicating qualitative info externally
Exploring potential adaptation of autonomous control systems to other fields	Exploring areas to expand the core technology autonomous control system
Financial target	Target 10 bn JPY in sales and 1 bn JPY in operating income by 2025, for the Master Plan (2030) of 100 bn JPY in sales and 10 bn JPY in operating income

Current progress and outlook

- **Structural Reforms**
  - SOTEN, which was expected to be a growth driver, started mass production in 2022, but **sales declined in 2023, and a large loss was recorded**
  - **Overall business restructuring in 2024** with an emphasis on improving sales and profitability
  - **"Select and Focus"** on a wide range of products and **"Optimize resource"** to improve costs structure
- **Expanding overseas operations**
  - **Accelerated expansion in the U.S.**, where eliminating Chinese drone is accelerating. Established a subsidiary in the U.S., built a distributor network, and secured a large project
  - **In India,** established an office and **won a major project, which was recorded in FY24**
- **Reflection on numerical targets**
  - **Net sales for FY24 were approx. 2.7 bn JPY and operating loss was 1.4 bn JPY** (excluding national project expenses), **falling short of the numerical targets**
  - **FY25 plan** (10 billion yen in net sales, 1 billion yen in operating income) **revised. FY25 forecast is not disclosed due to the large scale of the business of drone utilization by local governments, which makes it difficult to calculate appropriate and reasonable figures at this time.**

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Understanding of the current situation and future direction

Understanding of the current situation

- Although the macro environment is favorable for our industry as a whole, profitability will deteriorate significantly in 2023 due to changes in the external environment caused by soaring semiconductor prices, a rapidly weakening yen, and global inflation
- Economic security concerns are increasing in the global context, especially the elimination of Chinese drones, which used to dominate the U.S. drone market
- SOTEN's sales declined in 2023, but recently it has gradually become more competitive based on customer feedback; in 2024, it won a Defense Ministry project in Japan and a large order in the U.S.

Future direction

- As part of business restructuring, focus on SOTEN and logistics drones, continue cost optimization, and accelerate reinvestment in priority areas
- In overseas development, focus on the U.S. market, where our strengths can be leveraged more effectively
- Revised the FY25 numerical plan announced at ACSL Accelerate FY22 was revised. Aim to return to profitabile as soon as possible through efforts to expand sales and improve profitability

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Target domain with strong competitiveness

Focus on small aerial photography in Japan and the U.S. and logistics in Japan given our competitive advantage

	Focus	Current activity	Competitiveness
Aerial photo 	**Japan：** **Defense and Disaster (public agency), as well as major companies** **Overseas：** **Focus on US that has shown strong China ban. Start with inspection and expand to defense and disaster**	**SOTEN** (launched) **Development of next gen aerial photo drone** (SBIR ending FY25)	**Drone development that meets economic security demand** **One of the very few mass manufacturer in Japan** **System for rapid and continuous development of new functions in response to market feedback**
Delivery 	**Japan：** **Continue development with Japan Post, and establish operations for social implementation**	**Partnership with Japan Post for capital and business alliance for social implementation** **Development of Postal delivery drone**	**High technical capability that achieved the only Level 4 type certificate and abundant record of successful delivery trials in Japan** **In-depth technical and operational team setup with Japan Post**

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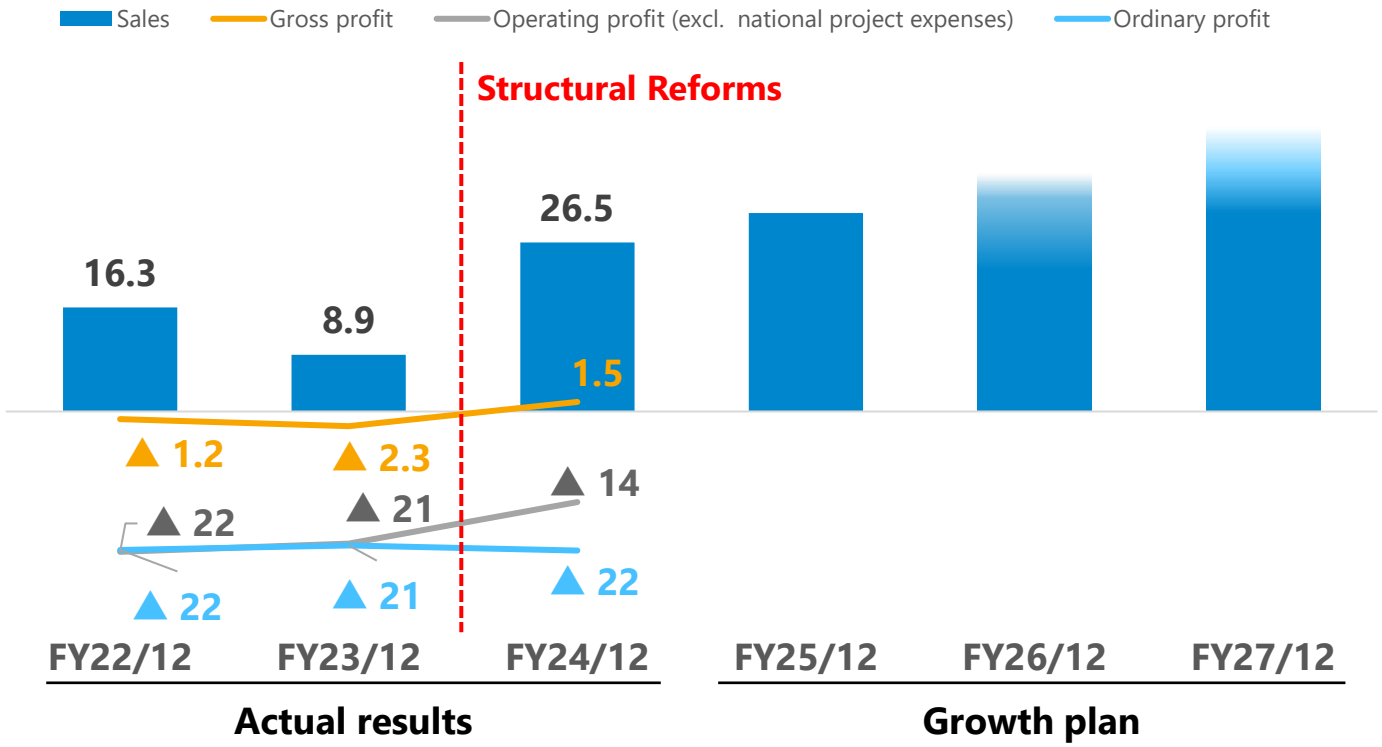
Mid-Long-Term Outlook

Aim to be profitable through sales expansion and profitability improvement

Sales and Profit[1]

100 mn JPY



Mid-long-term growth targets

Continued improvement in profitability

- **Focused on economic security, Japanese government and U.S. inspection and disaster response areas for procurement of Non-China drones. Drone development and social implementation with Japan Post Co.**
- **Maintained cost structure after structural reform. Focus on high-growth U.S. market as investment areas**

Capture new market opportunities

- **Expand sales in response to the trend of Non-China drone in the U.S.**
- **Increase in domestic demand due to promotion of drone utilization by local governments**

Business results are not disclosed because the business scale of drone utilization for local governments is large and it is difficult to calculate appropriate and reasonable figures for the forecast for FY25 at this time. It will be disclosed as soon as it becomes visible based on future progress.

1: Operating profit is excluding national project expenses of 860 mn JPY for FY24/12. Operating profit Including national project expenses, FY24/12 is ▲2.29 bn JPY.

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FY24/12 results and highlights

Summary

Sales were strong, totaling 2.65 bn JPY for the full year due to orders for large US projects, plus order backlog of 1.37 bn JPY

R&D expenses and other SG&A and were reduced from the same period of the previous year, despite upfront SBIR expenses

Sales

Sales

2.65 bn JPY

YoY +196%

Backlog at end of year

1.37 bn JPY

In addition to a large project in India, large orders were received in the U.S. market. Backlog of orders at the end of the fiscal year for existing business[1] is also the highest ever

Profit rate

Gross profit rate

6%

YoY +32pt

Existing business[1] Marginal profit margin

54%

YoY +5pt

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

Operating income

-2.29 bn JPY

YoY -220 mn JPY

Existing business[1]	-1.54 bn JPY
India	+110 mn JPY
National project	-860 mn JPY

National project R&D expenses (SBIR) were recorded as an expense upfront. Existing business portion decreased from last year due to cost reductions in business restructuring

1: Figures exclude costs for large Indian and national projects

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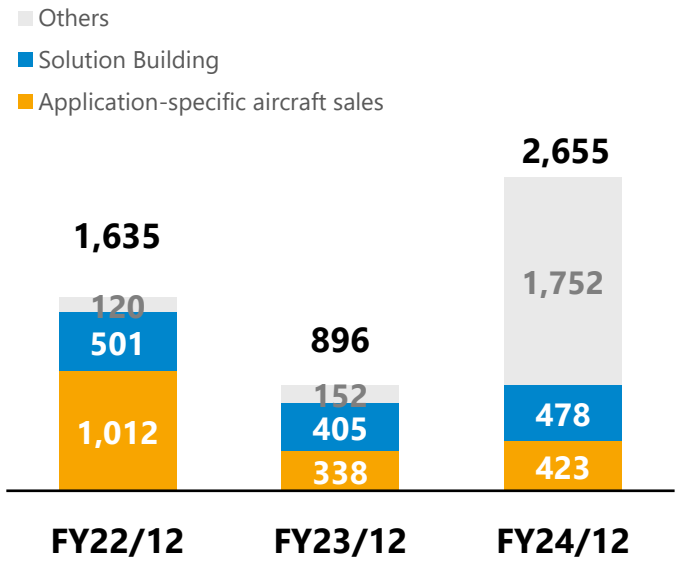
Key Financial Figures

Net sales increased from last year. Cost structure improved due to implementation of structural reforms

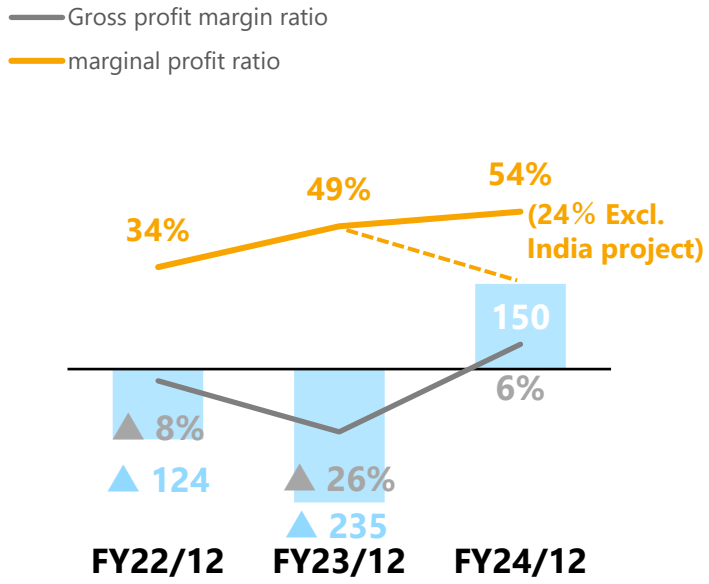
Sales
mn JPY

Significant growth due to 1.7 bn JPY large projects in India. Aircraft sales and solutions also expanded compared to last year



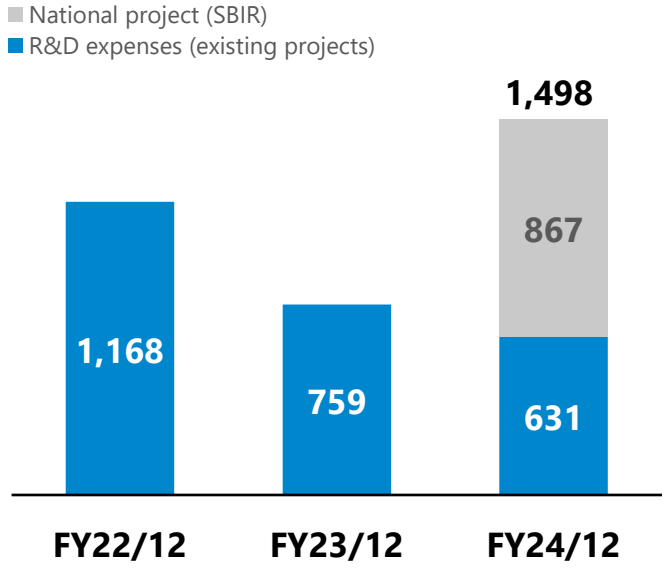
Gross profit
mn JPY

Gross profit recovered from a negative figure. Marginal profit margin (excluding India project) also increased



R&D Expenses
mn JPY

In line with structural reforms, R&D expenses related to existing projects, excluding Gov. projects, have been significantly reduced



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FY24/12 financial plan and Results Summary (Consolidated)

FY24 sales below forecast, but operating profit above forecast. Recurring profit below forecast caused by delayed payment of grants for Gov. projects

[mn JPY]	FY24/12 actual results					FY24/12 Forecast			
	Existing business	India Large projects	SBIR (Gov. Project)[1]	Total	Differences from forecasts	Existing business	India Large projects	SBIR (Gov. Project)	Total
Net sales	955	+1,700	-	2,655	▲244	1,200	+1,700	-	2,900
Gross profit	31	+119	-	150	+10	21	+119	-	140
Gross profit ratio	3%	-	-	6%	+1%	2%	-	-	5%
SG&A (inc. R&D, US subsidiary)	1,576	-	+867	2,444	▲ 125	1,570	-	+1,000	2,570
Operating profit	▲1,545	+119	▲867	▲2,293	+136	▲1,549	+119	▲1,000	▲2,430
Ordinary profit	▲1,599	+119	▲708 (Non-Op. income +158)	▲2,188	▲ 158	▲1,649	+119	▲500 (Non-Op income +500)	▲2,030
Net Profit	▲1,782	+119	▲708	▲2,371	▲ 311	▲1,679	+119	▲500	▲2,060

▲ stands for negative

1: Expenses for gov. projects (SBIR) are booked as SG&A expenses. Subsidies for expenses are earned as non-operating income when the amount of expenditure is finalized after the audit. For the fiscal year ending December 2024, the expenses up to FY2024/Q1 have been accounted for. Expenditures from FY24/Q2 to be booked after 2025.

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FY24/12 Q4 Results and YOY Comparison

Sales increased greatly YoY, and cost structure improved by restructuring. Operating income/loss deteriorated by government project R&D expenses (SBIR)

[mn JPY]	FY24/12 results	Full year results	YoY comparison
Net sales	2,655	896	+1,759
Gross profit	150	▲235	+386
Gross profit ratio	6%	▲26%	+32pt
SG&A[1]	2,444	1,836	+608
SG&A (excl.gov. project)	1,576	1,836	▲259
Gov. project expenses	867	-	+867
Operating profit	▲2,293	▲2,071	▲222
Ordinary profit	▲2,188	▲2,102	▲85
Net Profit	▲2,371	▲2,543	+171

Summary

- Significantly increased YoY due to booking of India project (1.7 bn JPY)
- Backlog of orders in the existing business, excl. projects in India, was 1.37 bn JPY in 4Q, +1.14 bn JPY YoY, and the business is progressing steadily
- Gross profit and gross profit margin both increased YoY
- Marginal profit margin of existing business excl. India projects improved by 5 pt YoY to 54%
- SG&A expenses for existing businesses reduced by 260 mn JPY YoY by restructuring
- Gov. project R&D expenses (SBIR) totaled 870 mn JPY, an overall increase of 0.60 bn JPY YoY
- Operating income deteriorated YoY due to Gov. project R&D expenses (SBIR), despite sales increase
- Net income loss narrowed from last year

1: R&D, including U.S. subsidiaries

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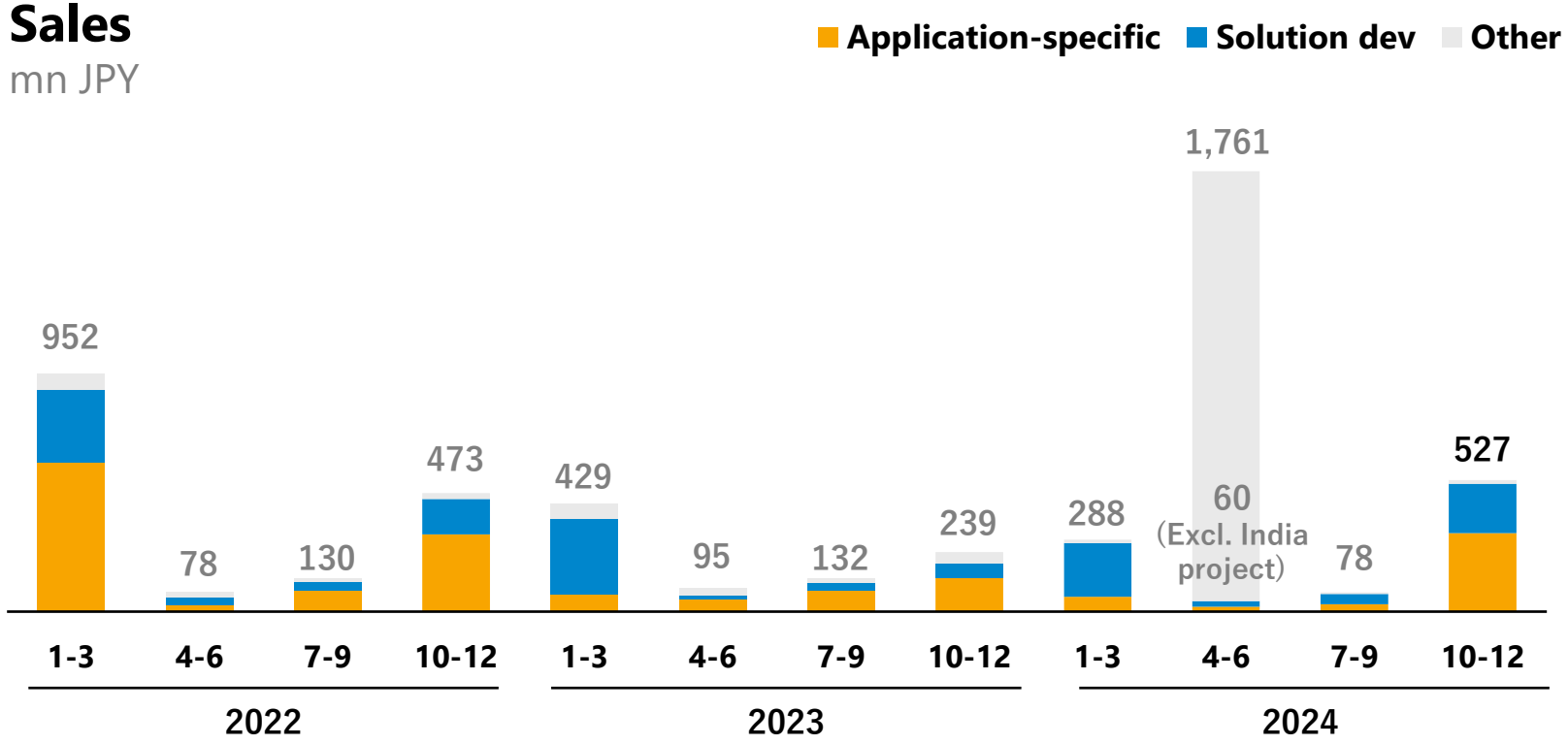
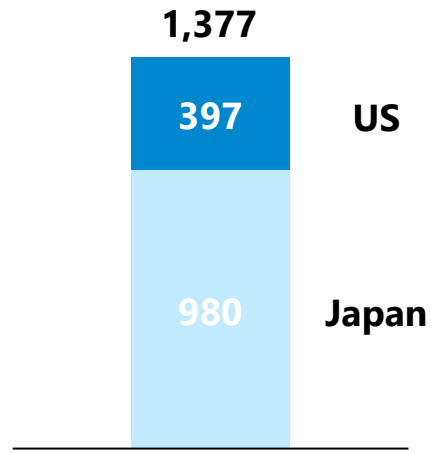
Quarterly sales and backlog

Large projects were booked at the end of the fiscal year, increasing compared to last year. Backlog orders for Japan and the U.S. totaled 1.37 bn JPY

Sales
mn JPY



FY25 backlog[1]
mn JPY



24/12 Order backlog at end of fiscal year

1: Backlog is the total amount of orders received at the end of the fiscal year. FY25 backlog is the amount of orders that are scheduled to be booked as sales in FY25.
Assuming 1 USD=150 JPY

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Status of Overseas Expansion

U.S. sales and marketing activities are in full swing and large orders received. Focusing on US market in overseas expansion given the market environment

Acceleration of sales in US

- SOTEN is highly evaluated for its NDAA[1] compliance and competitive pricing in the U.S., where the shift away from China is progressing, and has attracted high interests and expectations from facility inspection companies in the U.S.
- Obtained better results than U.S.-made drones in a comparison test using drones at a local infrastructure inspection company
- Established a subsidiary in 2023 and acquired SOTEN export license. Began sales to end-users through a U.S. distributor
- Signed a distributorship agreement with Exertis Almo in Oct. 2024 and received an order for 500 units
- MOUs have been signed with 7 companies in total, creating a 16 sales dealers[2]. Accelerating sales in response to the development of regulations for non-Chinese drones

Other overseas progress

- Trend of Non-China drones is accelerating in India, Taiwan, and other countries outside of the U.S.
- Received a large order in India and booked sales in FY24/12
- Explore the possibility of collaborating with local partners in Taiwan

1: The NDAA (National Defense Authori zation 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.
2: As of February 13, 2025

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US Expansion

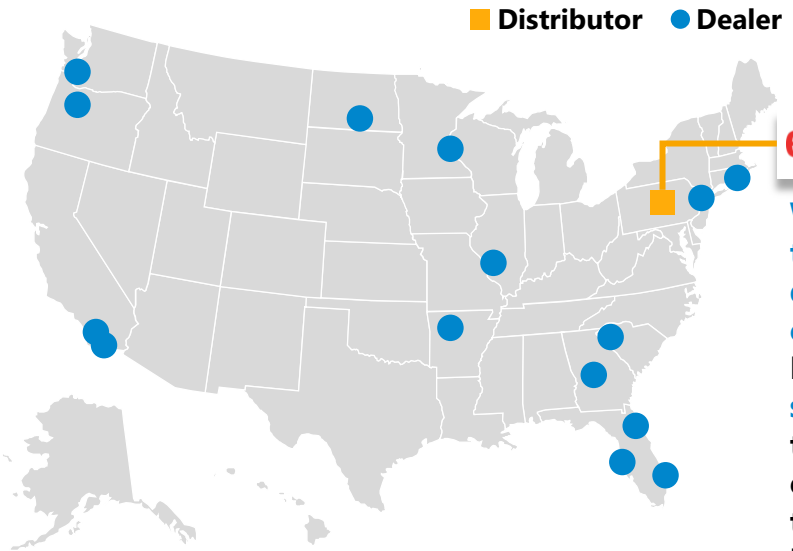
Started sales of SOTEN in the US from Dec 2023. Strategic MOU signed in infrastructure companies. Expanding distributor and dealer network.

MOU signed in the US

GEN PAC General Pacific, Inc.	Provide drone program development support for utilities, on-site UAV services
C2 GROUP	Drone solution provider to infrastructure companies
FIRMATEK	Provide drone services in mining and essential infrastructure inspections
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.	Over 300 customers in 40 countries, hundreds of thousands of drone facility inspections per year

Distributor and dealer network in the US[1]

Expanding throughout US via 16 distributors



exertis | ALMO

World's leading technology distribution company. Provides drone sales and support through a supply chain established throughout the U.S.

1: As of Feb. 13, 2025

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Partnership with Exertis Almo by ACSL, Inc.

Strengthen SOTEN sales in North America through the extensive distribution network and services of Exertis Almo

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.
- 500 SOTEN units ordered (approx. 510 mn JPY / 3.4 mn USD) in 2024. 100 units have already been delivered, and the remaining 400 units are scheduled for first half of FY25

Partnership summary

- Provide comprehensive sales, support, and training to SOTEN dealers and further develop sales and market development in North America
- Provides for a variety of applications including inspection, surveying, and monitoring for industries such as energy, public safety, and agriculture
- SOTEN to be featured at Exertis Almo E4 Experience training and AV tech expo in Dallas



Commercial Drone Solutions by Exertis Almo



SOTEN

1: 1USD = 150円
Source: Exertis Almo website

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Disaster Relief Agreements signed with 4 municipalities

Provide information, support for goods transportation in the event of a disaster, utilizing the experience of disaster site

西条市
Saijo City Website

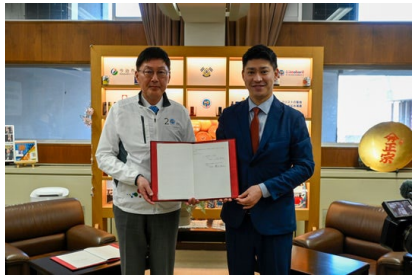
- Sept. 19, 2024, with Saijo City, Ehime Pref.
- The use of drones in the event of a disaster to assess the situation at the disaster site, search and transport supplies, and train human resources for disaster management activities and drone applications during normal times



Left: Satoshi Washiya, ACSL CEO
Right: Toshihisa Tamai, Mayor of Saijo City

今治市
IMABARI CITY

- Jan. 21, 2025, with Imabari City, Ehime Pref.
- Rapid information gathering and emergency response using drones in diverse areas such as mountainous regions and islands



Left: Shigeki Tokunaga, Mayor of Imabari City
Right: Satoshi Washiya, ACSL CEO

つくばみらい市
TSUKUBAMIRAI CITY

- Jan. 22, 2025, with Tsukubamirai City, Ehime Pref.
- Using drones for disaster awareness projects not only during disasters, but also during normal times. Improvement of the city's overall disaster preparedness, including the transportation of goods



Left: Satoshi Washiya, ACSL CEO
Right: Hiroshi Odagawa, Mayor of Tsukubamirai City

Oyama-Town
小山町

- Jan. 29, 2025, with Oyama Town, Shizuoka Pref.
- The use of drones in the event of a disaster to assess the situation at the disaster site, search and transport supplies, and train human resources for disaster management activities and drone applications during normal times



Left: Masahide Komiyama Mayor of Oyama Town
Right: Satoshi Washiya, ACSL CEO

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Level 3.5[1] delivery by Japan Post with a new logistics drone (PF4)

"Sustainable logistics" through social implementation by logistics drones by further improving the performance of PF4

- **Conducted in Toyooka City, Hyogo Pref. from Oct. 22 to Dec. 6, 2024**
- **"Community delivery by drone" in cooperation with local residents by Japan Post, with supply of drones and operation by ACSL.**
- **Long distance delivery of up to 25.5 km (approx. 40 min) per flight and complete remote operation from Tokyo**



New logistics drone PF4



Remote operation base
(ACSL office in Tokyo)

1: Level 3.5 flight is a flight that facilitates the crossing of roads, railroads, etc. without the need for entry control measures (deployment of assistants, signboards) that are conventionally required, through possession of drone operator proficiency certificate, insurance coverage, and use of on-board cameras

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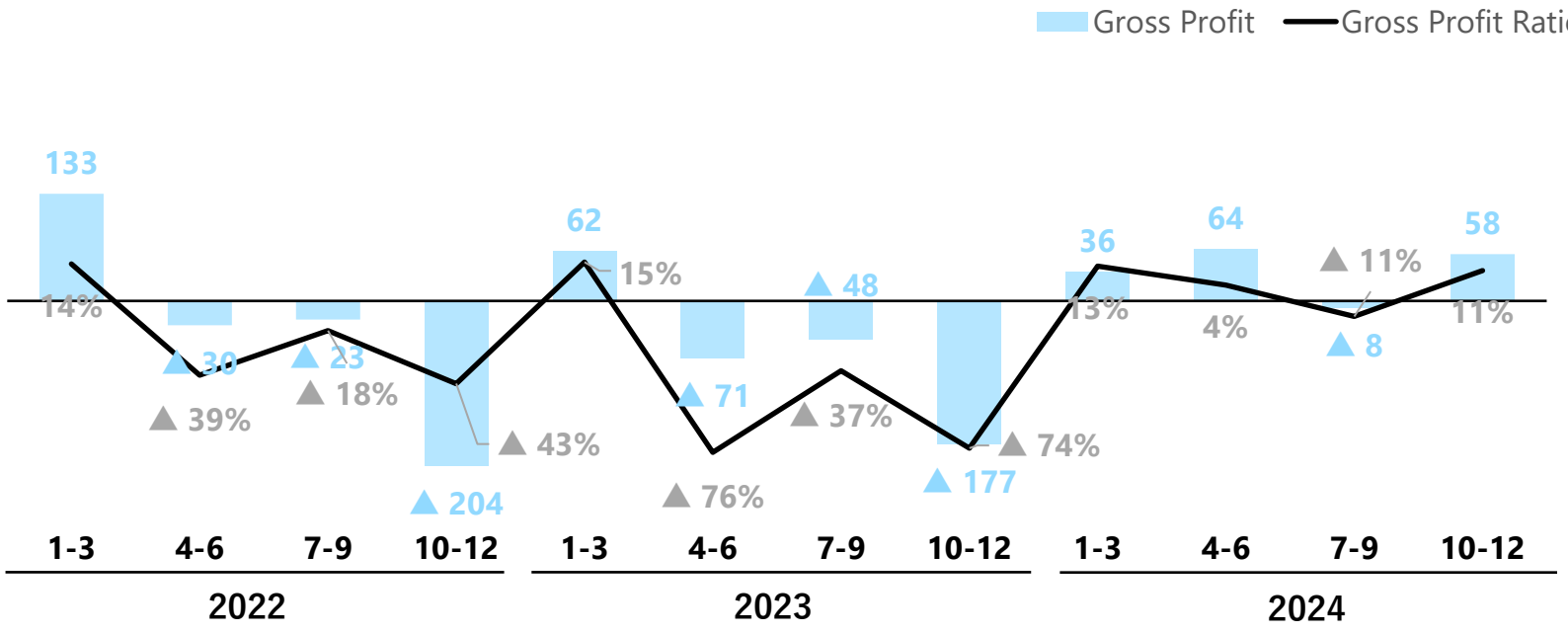
Gross Profit and Gross Profit Ratio

Gross profit margin improved YoY. Increased both gross profit and profit margin YoY

Gross Profit and Gross Profit Ratio[1]

mn JPY



- **Gross profit margin improved significantly from the previous period**
- **Increased Gross Profit and Improved Gross Profit Margin YoY**
- **FY23/12 Q4 includes one-time decrease due to inventory write-down (140 mn JPY)**

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Marginal profit ratio by segments[1]

SOTEN as a marginal profit margin improved to 49%, while Solutions maintained around 60%

		FY22/12 full year	FY23/12 full year	FY24/12 full year
SOTEN (Aerial photography)	Sales (100 mn JPY)	9.3	2.0	4.0
	# of drones (units)	645	101	240
	Marginal profit ratio (%)	20	47	49
Solution Development (Proof-of-concepts trials, sales of prototype drone)	Sales (100 mn JPY)	5.0	4.0	4.7
	Marginal profit ratio (%)	54	61	58

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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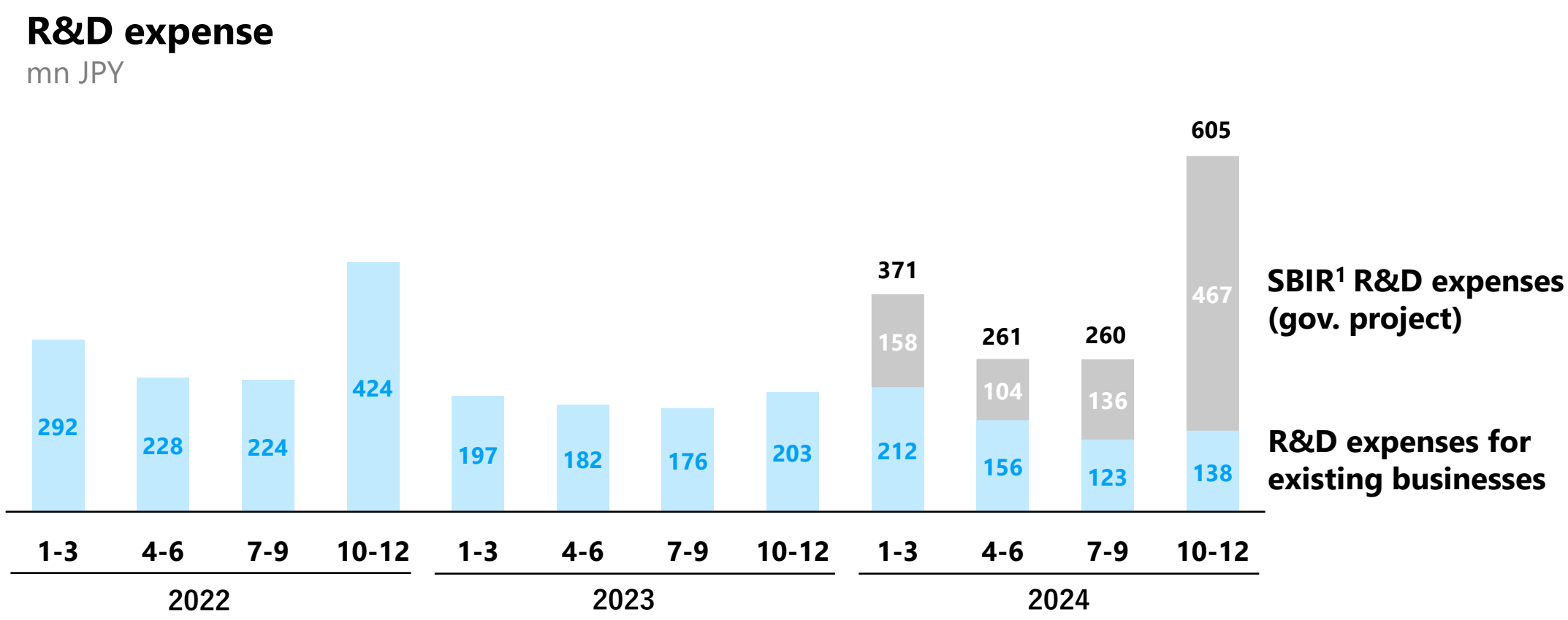
R&D expense

Increase in total R&D expenses due to gov. project (SBIR[1]); decrease YoY in R&D expenses for existing businesses excl. SBIR, due to restructuring



1: Small and Medium Enterprise Innovation Creation Promotion Project. Expects to receive up to 2.6 bn JPY in subsidies for the period from Dec. 2011 to Dec. 2013 for the development of new high-performance small aerial photography drones that take into account economic security and safety

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Awarded 3 large national projects for technical development

Award 2.6 bn JPY by FY26 for SBIR. 1 bn JPY in total and 100 mn JPY in project size for 2 K Programs

	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	■ Dec 2023 ~Dec 2025 (scheduled) ■ 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[1] in harsh environments ■ Development of technology for multiple drones to estimate and understand their own spatial position and share	■ Apr 2024 ~Mar 2028 ■ R&D subsidy：Max 1 bn JPY[2]
NEDO **K Program** (Economic security important technology development program)	same as above	■ Study for hardware development of small drones with autonomous and decentralized control functions ■ Surveys of advanced technologies in Japan and abroad, existing drones and research and development trends, determine the direction of competitive drone development	■ May 2024 ~Mar 2025 ■ R&D subsidy：within 100 mn JPY

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

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Business and capital alliance with Murata Manufacturing Co., Ltd

Approx. 1.5 bn JPY financing completed through a business and capital alliance with Murata in Dec. 2024

Raised amount

1.48 bn JPY

From	**Murata Manufacturing Co., Ltd. and CVI Investment**
Summary	**Convertible bond (Convertible Bond with Stock Acquisition Rights) Interest rate ：2%　Repayment date ：Feb. 2030**
Details	**Mutual collaboration in product development, production and sales**
Use	■ **R&D expenses for development and evaluation of drones and business investments related to mass production** ■ **Working capital for overseas business expansion**

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KPI and key financial items by fiscal year

mn JPY	Fiscal Year[1]	FY19/03	FY20/03	FY21/03	FY21/12	FY22/12	FY23/12	FY24/12
Net sales		807	1,278	620	501	1,635	896	2,655
Small aerial photography drone	mn JPY	-	-	-	-	939	206	402
	Units					645	101	240
- Japan	mn JPY					939	144	276
	Units					645	50	128
- Overseas	mn JPY					-	61	125
	Units						50	112
Other application-specific drones	mn JPY	-	-	-	-	73	132	21
	Units					18	26	2
Solutions	mn JPY	678	1,171	515	192	501	405	478
- Demo experiment	mn JPY	293	866	370	124	397	337	271
	No. of cases	81	112	82	41	71	52	34
- Platform drone	mn JPY	384	304	145	67	103	67	207
	Units	106	101	46	18	27	15	47
Others	mn JPY	129	107	105	308	120	152	1,752 (India project 1,700)
Gross profit		403	808	68	0	▲124	▲235	150
Gross profit ratio		50%	63%	11%	0%	▲8%	▲26%	6%
SG&A		733	792	1,207	1,189	2,079	1,836	2,444
- R&D expenses		366	275	583	604	1,168	759	1,498
Operating profit		▲330	15	▲1,139	▲1,188	▲2,203	▲2,071	▲2,293

1: Figures are based on consolidated financial statements for the third quarter of FY2021 and thereafter, for earlier quarters figures in the non-consolidated financial statements FY21/03 through April to March of the following year. FY21/12 is an irregular accounting period from April to December; FY22/12 and beyond are from January to December.

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Quarterly KPI and key financial items

mn JPY	Fiscal Year[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	4Q
Net sales		36	42	46	495	267	133	100	952	78	130	473	429	94	132	239	288	1,761	78	527
Small aerial photography drone	**mn JPY**								590	21	25	301	33	49	37	86	46	19	30	313
	Units								475	6	7	157	13	16	13	59	31	8	12	182
- Japan	**mn JPY**			-			-		590	21	25	301	33	49	37	24	46	14	20	194
	Units								475	6	7	157	13	16	13	9	31	8	7	82
- Overseas	**mn JPY**										-				-	61	-	5	9	110
	Units															50	-	7	5	100
Other application-specific drones	**mn JPY**			-			-		3	2	60	7	34	0	46	50	12	0	-	8
	Units								1	2	15	-	6	-	10	10	1	-	-	1
Solutions	**mn JPY**	5	33	35	440	30	77	85	294	33	33	140	305	15	32	53	215	22	41	198
- Demo experiment	**mn JPY**	1	22	22	323	14	42	67	252	16	25	103	265	5	28	37	192	22	5	50
	No. of cases	2	11	15	54	6	14	21	32	1	10	17	29	4	10	9	18	4	5	7
- Platform drone	**mn JPY**	4	10	13	116	15	34	17	42	17	7	37	39	9	3	15	23	-	36	148
	Units	1	3	5	37	6	6	6	8	4	2	13	7	3	1	4	4	-	11	32
Others	**mn JPY**	30	8	10	55	237	55	15	64	20	11	24	56	30	16	49	13	1,717	6	15
Gross profit		▲6	▲6	▲13	94	17	5	▲22	133	▲30	▲23	▲204	62	▲71	▲48	▲177	36	64	▲8	58
Gross profit ratio		▲19%	▲16%	▲28%	19%	7%	4%	▲23%	14%	▲39%	▲18%	▲43%	15%	▲76%	▲37%	▲74%	13%	4%	▲11%	11%
SG&A		230	173	314	488	325	348	515	535	442	431	670	419	451	469	495	631	495	488	829
- R&D expenses		60	77	129	315	153	165	285	292	228	224	424	197	182	176	203	371	261	260	605
Operating profit		▲237	▲180	▲328	▲393	▲308	▲342	▲538	▲401	▲473	▲454	▲874	▲356	▲523	▲517	▲672	▲594	▲431	▲496	▲770

1: Figures are based on consolidated financial statements for the third quarter of FY2021 and thereafter, for earlier quarters figures in the non-consolidated financial statements FY21/03 through April to March of the following year. FY21/12 is an irregular accounting period from April to December; FY22/12 and beyond are from January to December.

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Balance Sheet

Mn JPY	FY24/12 Actual	FY24/12 YoY change to same period previous year	FY23/12 Actual	FY22/12 Actual
Current assets	3,877	▲8%	4,203	3,572
Cash	1,243	▲17%	1,499	1,356
Fixed assets	685	▲23%	891	1,403
Current liabilities	2,129	＋33%	1,603	2,003
Fixed liabilities	2,238	＋83%	1,227	34
Total liabilities	4,368	＋54%	2,830	2,037
Net assets	194	▲91%	2,264	2,938
Total assets	4,563	▲10%	5,094	4,976

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Capital reduction and compensation for losses

Capital reduction and deficit compensation to ensure flexibility and mobility of capital policy, and impact on tax aspects such as corporate enterprise tax

Mn JPY	As of 25/2/13 Non-Consolidated Net Assets
Capital stock	149
Capital surplus	
- Capital reserve	1,564
- Other capital surplus	827
Retained earnings	
Other retained earnings (Retained earnings carryover)	▲2,464
Treasury stock	▲0
Total shareholders' equity	77

Reduction of capital and capital reserve (capital reduction)
Reduced capital stock to 10 mn JPY and capital reserve to 0 JPY, and transferred 1,704 mn JPY to other capital surplus

Appropriation of Surplus (Compensation for losses)
1,704 mn JPY transferred from capital stock and capital reserve to other capital surplus is transferred to other retained earnings to compensate for the negative balance of retained earnings brought forward

Total shareholders' equity
No change in total shareholders' equity after capital reduction and loss adjustment

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1. Business model and core competency
2. Market overview
3. Business plan
4. Business highlights and current progress
5. **Risk information**

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Key risks and management for them

Item	Key Risks	Risk Management	Possibility	Impact
Drone Safety	• In the event of a serious drone crash, not only at ACSL(the Company) but also at other companies, public trust in the safety of drones may be eroded, leading to a decline in demand from customers and a slowdown in market growth due to stricter regulations, which may affect the Company's business and earnings. In this case, our business and business performance may be affected. • In the unlikely event that a drone manufactured by our company crashes and causes damage to people, property, etc., there is a possibility that our business and business performance will be affected due to significant product liability compensation, large payments and expenses due to a recall, and loss of public trust.	• We are striving to realize drones that can coexist safely with people without causing accidents. ACSL became the first company in Japan to obtain a Type 1 Certificate for Unmanned Aerial Vehicles, which was initiated in December 2023. The Type Certification System is a system that inspects the strength, structure, and performance of unmanned aircraft to ensure that the design, manufacturing process, and status of the aircraft conform to safety standards.. • In preparation for any eventuality, we are working with insurance companies to develop dedicated insurance for drone and operations to cover liability and expenses incurred in the event of a serious accident.	Middle	High
Drone Safety	• In the event that security is compromised by malicious hackers, etc., the drone may become uncontrollable, causing damage to people and property, or data leaks may cause damage to users, etc., which may have an impact on our business and business performance due to large payments and expenses for serious product liability compensation and recalls, and loss of public trust.	• Our company places a high priority on safety in the selection of components related to data security, and we are working on the advancement of security technology on the drone side, such as communication encryption to prevent hijacking. In addition, we have selected solution partners and clients and are able to identify all of our direct transactions with our customers.	Low	High
Laws and regulations surrounding the drone business	• With regard to the Product Liability Law, since we manufacture products such as drones, if a victim proves that they have suffered life, body, or damage due to a defect in our products, etc., a claim for damages may be recognized.	• With regard to the Civil Aeronautics Law and the Radio Law, we have obtained permission and approval based on the said laws. • To mitigate risks, we have had our instruction manuals reviewed by an external technical writer and have worked with an insurance company to develop a dedicated insurance policy. We have also acquired ISO 9001 certification for quality management and airframe certification from the Japan Unmanned Aircraft Manufacturers Association (JUAV).	Low	High
Laws and regulations surrounding the drone business	• With respect to the Foreign Exchange and Foreign Trade Law, some of the products and parts sold by the Company may be subject to regulations. In the future, it is assumed that unexpected regulations may be enacted, revised or abolished, or that planned deregulation may not proceed as planned. In such cases, if the Company is unable to flexibly respond to the relevant laws and regulations, the Company's activities may be restricted due to the revocation of permits and licenses, which may affect the Company's business and earnings.	• When we export drones or provide related technologies to overseas markets, we comply with the Law and strive for appropriate export control. • We have established a system to check compliance with laws and regulations not only internally, but also with outside experts such as legal counsel.	Low	High

※ Among the contents of "Business and Other Risks" in the Annual Securities Report, major risks that may affect the execution of the business plan and the realization of growth are extracted and described. For other risks, please refer to "Business and Other Risks" in the Annual Securities Report.

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Key risks and management for them

Item	Key Risks	Risk Management	Possibility	Impact
Intellectual Property Rights	• There is a possibility that intellectual property rights of which we are not aware have already been established, or that new intellectual property rights of third parties may be established, and it is extremely difficult to completely eliminate the risk of such infringement. • In the event that the Company is involved in a legal dispute with a third party in the future, the Company will consult with lawyers and patent attorneys and consider specific measures to be taken depending on the details of the dispute. However, the Company may incur a large human or financial burden to deal with the dispute, and in some cases may be subject to claims for payment of damages, etc. or injunctions against the manufacture and sale of products, etc., which may affect the Company's business and business performance.	• With regard to intellectual property rights such as patent rights related to our business, we have not received any indication of infringement of intellectual property rights from a third party, and we will continue to manage our intellectual property rights appropriately in order to prevent any infringement. • We will continue to invest in patent development as we expand our business.	Low	Middle
Procurement, pricing, and inventory of parts and materials	• The Company procures most of the parts and materials necessary for its production and R&D activities from external suppliers. However, in the event of interruptions in supply from suppliers or supply shortages due to a rapid increase in product demand, various activities may be restricted, which may have an impact on the Company's business and earnings. • In the event of quality problems, problems with the production system and quality control system at the supplier of the procured products, or other events that may have a significant impact on our business operations, our business performance may be affected. • There is a possibility of opportunity losses and lost profits due to inventory shortages, or additional expenses such as inventory management costs and impairment due to excess inventory, which may occur due to demand being different than initially expected.	• In the procurement process, we carefully conduct quality checks and other incoming inspections. • Inventory will be maintained at an optimal level in line with product plans and sales scale with regular revision according to the demand forecast. • We conduct regular audits of our major business partners to confirm the status of their production, development and other activities.	Middle	Middle

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Key risks and management for them

Item	Key Risks	Risk Management	Possibility	Impact
Product Quality	• In the unlikely event that a product defect occurs, depending on the nature of the defect, it could result in the incurrence of significant costs and loss of trust, which could have a negative impact on our business performance and financial position. Specifically, if the incidence of product defects within the warranty period exceeds our expectations, or if unforeseen defects occur, we may incur after-sales service costs, free repair costs, recall costs, and other expenses. • In the event that a victim proves that they have suffered damage to life or limb due to a defect in one of our products, etc., there is a possibility that a claim for damages will be approved based on the Product Liability Law. In the event that our response to these risks is prolonged and exceeds the scope of coverage by our insurance, our business activities may be hindered and our business performance and financial position may be affected.	• We have established quality assurance management rules and production management rules, and are striving to maintain and improve the quality of our products through manufacturing and quality control in accordance with these rules. • We will continue our efforts to improve the quality of our products, especially with regard to continuous improvement against defects, promotion of product designs that are less prone to defects, reinforcement of testing during development and prior to shipment, including the introduction of reliability testing, continued development of emergency countermeasure functions for our products, establishment of rules for operations such as flight and drone management, and strengthening of processes for handling customer complaints, malfunctions, and crashes.	Low	High
Uncertainty about business performance	• Sales volume may fall short of expectations due to a mismatch with customer needs, changes in epidemics, the emergence of competitors, economic fluctuations, restrictions on economic activities due to the spread of new coronavirus infections, etc. In addition, budget approval and execution timing on the part of customer companies may also affect our performance trends. • The Company was established in November 2013 and has been in business for only about eight years. Therefore, the operating results of the Company for the past fiscal years are not sufficient to make comparisons between periods, and the operating results for the past fiscal years alone may not be sufficient information to judge the future performance of the Company. • If we are unable to keep up with the rapid evolution of technology, or if we are unable to introduce new products or technologies that will win the support of our customers and the market, and if our R&D activities are not fully effective, we may incur expenses related to investments that exceed our expectations. In such cases, the Company may not be able to achieve the plan it is aiming for, or it may take time to return to profitability in operating income, etc., which may affect the Company's financial position and operating results.	• For continuous growth, we are engaged in research and development of hardware and software for drones as autonomous control robot systems. Based on the idea that it is necessary to continue research and development activities that are essential for the development of new products or technologies, we have been actively investing costs related to research and development expenses, and will continue to promote research and development activities in the future. • Our policy is to build a system that can generate sustainable profits and cash flow through sales growth. • Together with internal and external stakeholders, all parties involved will work as one to create customer value and enhance corporate value.	Middle	Middle

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Key risks and management for them

Item	Key Risks	Risk Management	Possibility	Impact
Risks related to fluctuations in business performance	• The Company uses the acceptance inspection standard for both demonstration experiments, platform aircraft sales, and application-specific aircraft sales. With regard to demonstration experiments, deliverables related mainly to large-scale projects tend to be highly individualized. As a general rule, sales are recorded when the customer accepts that the specifications required by the customer have been met. However, if the acceptance inspection is delayed beyond the original schedule due to the individual nature of the project, the recording of sales will be delayed, which may affect our group's business performance. In addition, revenues from national projects in which our group participates are recorded as sales or non-operating income based on the nature of the project, but if the individual nature of the project prevents our group from recording the revenues in the categories we expect, our group's business performance may be affected. However, the Group's business results may be affected in cases where the individual nature of a project prevents the Group from recording sales in the expected categories.In addition, if the acceptance inspection of a project scheduled near the end of the fiscal year is postponed to the next fiscal year due to unfavorable weather or other reasons on the part of the client, the Group's business results may be affected.	• We are working to improve the transparency of our business performance by disclosing the order backlog as supplemental information for each quarter with respect to sales estimates. • In order to improve the transparency of our full-year business results, we have changed our fiscal year end (the last day of the fiscal year) to December 31, starting from the 10th fiscal year, so our accounting period is from January 1 to December 31.	High	Low
Securing working capital	• Since our main business flow involves the purchase of parts, development, manufacturing, sales, acceptance inspection, and collection of funds, working capital tends to increase in conjunction with business expansion, and cash flow from operating activities may be negative. In addition, the Company participates in various projects through industry-academia-government collaboration to develop cutting-edge technologies, and receives subsidies and grants from the government. Receipt of such subsidies, etc., will be credited after the amount is fixed after the audit by the competent authorities is completed, but funds for conducting R&D activities will be required during the implementation period, and R&D expenses will be incurred upfront.	• We will strive to secure working capital by securing profits through improvement of our profit structure and efficiency of working capital, as well as borrowing from financial institutions when it becomes necessary to raise funds.	Middle	Low

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Key risks and management for them

Item	Key Risks	Risk Management	Possibility	Impact
Overseas Expansion	• In order to expand our business in overseas markets, we are collaborating with local companies to promote overseas development, mainly in the United States. In India, we have established a joint venture with a local company. However, in the event of unexpected social or political changes, changes in laws and regulations related to our group's business, changes in taxation systems or rates, or other changes in economic conditions in India, such events may have a negative impact on our business development. In addition, the Company's business development may also be adversely affected by changes in policies and laws and regulations in each country or economic zone, including import and export regulations and environmental protection regulations, in connection with the procurement of parts from foreign companies and the sale of the Company's products or technologies to foreign companies.	• It is our policy to work closely with local companies so that we can respond immediately to any changes in policies and regulations in each country or economic zone.	Middle	Middle
Investment Activities	• As part of our growth strategy, we will actively consider corporate acquisitions, business alliances, and strategic investments, including those of overseas companies. In addition, the Company has established ACSL No. 1 Limited Liability Partnership as a corporate venture capital (CVC). In the event that the financial condition or business performance of the investee deteriorates due to changes in the business environment or preconditions, the Company's financial condition and business performance may be affected. In addition, for assets recorded in connection with investments, etc., if the expected cash flow cannot be generated due to deviations from future performance plans or changes in the market, an impairment loss may be recorded.	• The Company and CVC will make decisions on investments, etc., after giving due consideration to investment risks, etc., and will periodically check the possibility of recovering the investment value. • In promoting business in each country, we have established a check system including specialists by collaborating with local attorneys.	High	Low
Management system in a small-scale organization	• As of December 31, 2024, the Company operates as a small-scale organization with 56 employees on consolidated basis, and the internal management system is in line with the size of the organization. • In the event that we are unable to strengthen our workforce as planned, or in the event that unforeseen circumstances arise in the core personnel of our business that hinder the execution of operations, our business activities may be hindered and our business and business performance may be affected.	• In response to the future expansion and diversification of our business, we plan to increase the number of personnel and further enhance our internal management system. • With regard to personnel involved in development, which is the core of our competency, we are actively recruiting from a broad pool of human resources, both domestic and overseas, in order to acquire personnel with global and cutting-edge knowledge.	Low	High

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Key risks and management for them

Item	Key Risks	Risk Management	Possibility	Impact
Risks Related to Business Interruption	• The Group has formulated a business continuity plan (BCP) to prepare for the suspension of business activities due to unpredictable earthquakes, tsunamis, storms, and other natural disasters; accidents such as fires and power outages; epidemics; information system outages caused by computer viruses; and terrorist acts and other illegal activities. However, if business activities are suspended for an extended period of time or significant costs are incurred to repair facilities, there may be an adverse impact on business, business performance, and financial conditions.	• In addition to formulating a BCP, the Company is preparing for the suspension of business activities by utilizing remote work and cloud services.	Middle	Low

※ Among the contents of "Business and Other Risks" in the Annual Securities Report, major risks that may affect the execution of the business plan and the realization of growth are extracted and described. For other risks, please refer to "Business and Other Risks" in the Annual Securities Report.

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The next disclosure of this document will be made around the time of the announcement of these financial results.


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