

Supplementary material on Financing

ACSL Ltd.
January 20, 2023

Secured funding to accelerate social implementation and overseas deployment of application-specific drones under ACSL Accelerate 2022

- Business environment surrounding industrial drones, both in Japan and overseas, is a tailwind for Made-in-Japan drones, with increasing awareness to economic security, global compatibility, safety and social acceptance
- Under this market environment, ACSL is at competitive position based on the mid-term management strategy "ACSL Accelerate"
- In order to strengthen its positioning, "ACSL Accelerate FY22" is focusing on economic security, safety/social acceptance and global as an important theme
- Further development and evaluation of application-specific and platform drones, R&D for overseas business expansion, and TAKEOFF software development to improve social acceptance is essential for achieving ACSL's steady growth through making the most of the market condition
- ACSL raises 3.56 billion yen through this offering to achieve an expansion of business as described above
 - Issuance of new shares and convertible bonds to ensure that a certain portion of funding needs are immediately fulfilled
 - Private warrants reduces the dilution impact by fixing the exercise price and the number of shares to be issued upon exercise
 - Allocation to CVI Investments, Inc. with its assets managed by Heights Capital Management, Inc. backed by the US-based Susquehanna International Group, one of the world's largest financial conglomerates
- No changes have been made to the medium-term management policy plan as a result of this financing, with 2025 sales and net income targets remain unchanged at 10 billion yen and 1 billion yen, respectively.

Strong tailwind for Made-in-Japan drones globally

Macro trend

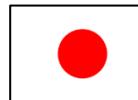
Demand for economic and data security

Economic security becoming important due to Russia-Ukraine war and geopolitical situation. Need for data security, data leakage prevention, and stable/safe procurement arising

Use of robotics and eco-friendly technology

Use of drones as a solution for manpower savings, decarbonization and clean energy is on the rise

Trends in each country



Regulation amended to permit Level 4 flight

completed on Dec 5, 2022 (beyond-visual line of sight flight over manned areas)



Drones adopted for Digital Rural City concept



NDAA¹ enforcement **bans Russian and Chinese drone procurement**, switching to safer drones



Import of foreign drone banned, but government **promote Make-In-India** to boost domestic drone market growth

Economic
Security

×

Global

×

Safety & Social
Acceptance

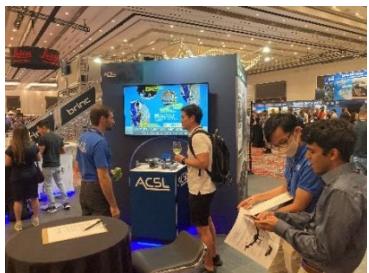
are a key factor for adaption to meet

the global market trends. Japanese drones are well-positioned to comply to them and meet growing demand

Economic Security

Mass production of four application-specific drones with **secure features and stable procurement of parts**

SOTEN highly evaluated as a **secure drone** at exhibitions and roadshows in the U.S.



Global

ACSL India formed to comply with Make-In-India, and **won a large project of 80 mn rupees (~130 mn JPY)**

First drone company in the world to **join the Consultative Committee of the Universal Postal Union, a United Nations agency**,



Safety and Social Acceptance

Developed a drone compliant for Level 4 and applied for Type Certificate

New drone under development released to target type certification by the end of FY2023



Fortifying position via mid-term plan ACSL Accelerate FY22



Mid-term plan “ACSL Accelerate” established to realize a 10-year outlook defined in the master plan.

Economic security, safety/social acceptance and global identified as an important theme under the strategy.

ACSL Accelerate FY22

**Shift to a sustainable
global manufacturer**

**Development and commercialization of
four application-specific drones**

**Development of new application drones
and compliance with security**

Full-scale launch into the Indian market

Reinforce ESG initiatives

**Exploring potential adaptation of
autonomous control systems to other fields**

Investment to following areas is important to capture the tailwind



Development and evaluation of application-specific/platform drone

■ Drone development and evaluation

- Development and evaluation of application-specific drone for aerial photography (SOTEN), pipe inspection and smokestack inspection
- Secure and Level 4 compliant for platform drones
- Development and evaluation of drones for new application

■ Mass production

- Mass production design, manufacturing process design and procurement setup, etc.

Working capital including R&D expenses for overseas business expansion

■ India and US market

- Customization of drones for local compliance, support for local radio systems, integration to flight management systems and functional development for export control

■ Establishment of commercial team and structure

- Selection of local partners, establishment of sales structure including inventory management, and development of customer support system

Development of TAKEOFF app

- TAKEOFF is the proprietary ground station software for autonomous drone flight
- Further development of TAKEOFF application functionality, user interface, user experience, and development of linkage to external systems

Financing Overview



Secure immediate fundraising through an issuance of new shares and convertible bonds, while utilizing private warrants with fixed exercise price to reduce dilution impact

	Common stock	Convertible bond (Bonds with subscription right)	Private warrants
Allottee		CVI Investment, Inc.	
Amount to be procured	0.34 Billion yen	1.39 Billion yen	1.83 Billion yen ¹
Total amount to be raised		3.56 billion yen	
Number of (potential) shares	Common stock of the Company 220,500 shares	700,000 shares – 1,680,169 shares (Lower limit conversion price~ Upper limit conversion price)	Common stock of the Company 920,500 shares
vs. number of shares outstanding ²	1.8%	5.7% - 13.6%	7.4%
Pricing ³	Issue price 1,539 yen (93% of the closing price on the day preceding the resolution date)	Conversion price Initial 1,985 yen (120% of the closing price on the day preceding the resolution date) Upper limit conversion price: 1,985 yen Lower limit conversion price: 827 yen	Exercise price 1,985 yen (120% of the closing price on the day preceding the resolution date)
Period	-	Redemption date: February 8, 2027	February 7, 2023 - February 8, 2027
Lock-up	No fundraising involving an issuance of shares, excluding third-party allotment to strategic partners for 180 days after the closing date of this transaction		
Conditions for Revision of Exercise Price	-	The conversion price will be revised every 6 months (8 times in total) to 90% of the lowest daily VWAP during 10-consecutive trading days immediately prior to August 6 of each year from 2023 through 2026, and to February 6 of every year from 2024 through 2027	No exercise price revision will be made. (See next page)

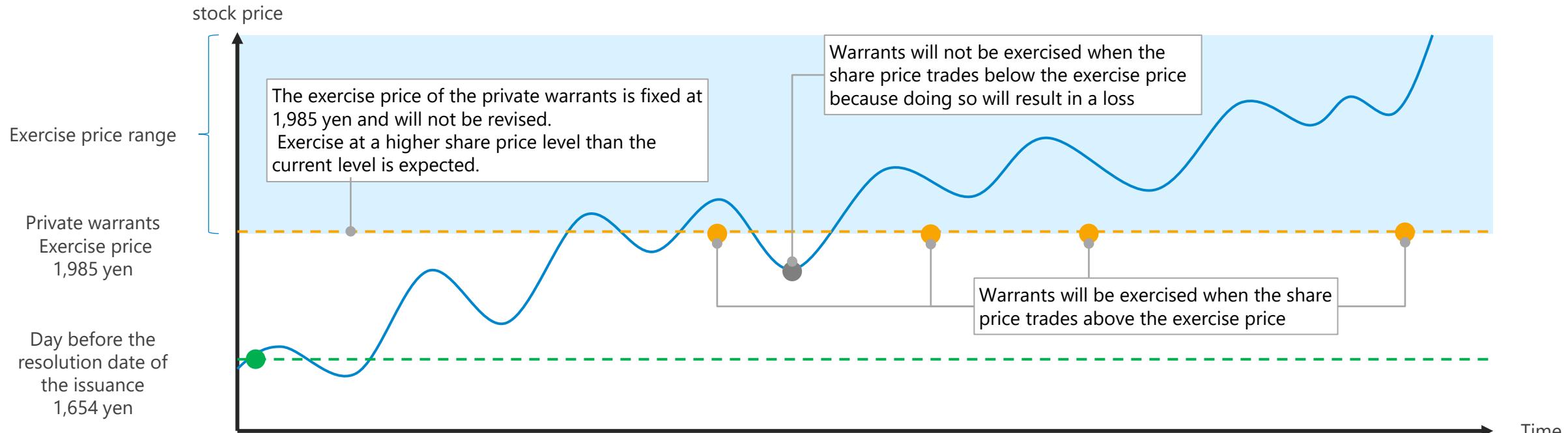
1: The sum of the initial paid-in amount and the total amount to be paid upon exercise of warrants. The amount of funds raised will decrease if the Stock Acquisition Rights are not fully exercised within the exercise period, or if the Company purchases and cancels some of the Stock Acquisition Rights
2 : As of December 31, 2022

3: Both the issue price and conversion price are rounded up to the nearest one yen.

Financing Mechanism

Raise a fixed amount at the time of issuance while reducing the impact of dilution by fixing the number of shares to be issued upon exercise of warrants

Relationship between Stock Price and Financing



Total amount of funds raised (illustrative)



Q & A on Financing (1/5)



Question	Answer
What is the purpose of the fundraising?	<p>The environment surrounding the drone market has been characterized by the demand for drones with guaranteed security due to growing interest in economic security, and the use of drones as a way to solve social issues in rural areas, as indicated in the basic policy of the Digital Rural City concept. This has attracted attention to domestically produced, secure drones.</p> <p>Given this environment, ACSL Ltd, ("ACSL" or "the Company") has been accelerating its effort to become a "sustainable global manufacturer" as stated in the "ACSL Accelerate 2022" and has been promoting the social implementation of drones, having started the mass production of "SOTEN", a security-compliant small aerial photography drone, and "AirTruck", Japanese-made drone designed exclusively for logistics applications. Overseas, ACSL has secured orders for a large-scale project in India through a joint venture with a local partner, actively participated in trade shows and held roadshows in the United States, in an effort to accelerate its overseas expansion. In addition, laws and regulations regarding Level 4 were introduced, resulting in appearance of huge space and market where the drone is available in the areas such as the drone logistics.</p> <p>Demand for industrial drones is expected to increase dramatically going forward. In order to meet diverse needs in the market, ACSL plans to strategically and proactively invest in R&D to achieve its medium to long-term growth, rather than to chase short-term profits. Also, ACSL will continue to accelerate our product and market development efforts to drive overseas expansion.</p> <p>In light of the external environment and business progress described above, ACSL decided to implement this offering to raise funds, as we have come to the conclusion that it is necessary to raise funds to accelerate our strategies set forth in "ACSL Accelerate 2022".</p>
Why did you choose to raise funds through a third-party allotment?	<p>Having considered various financing methods, ACSL opted for a third-party allotment because it will allow us to raise a certain amount of money to meet our capital needs at the time of issuance of new Shares and Convertible Bonds, and the remaining necessary amount can be raised upon exercise of Warrants with limited impact on the share price. ACSL believes that this financing method is the best option at this time to meet our company's future capital needs, while taking into consideration the interests of our existing shareholders.</p>

Q & A on Financing (2/5)

Question

What are the benefits of this scheme?

Main advantages of each financing method are as follows

- Financing through the issuance of new Shares allows the company to raise a certain amount of capital at the time the securities are issued. In addition, financing through an instrument with equity credit attributes will contribute to an improvement in the Company's financial soundness index.
- An issuance of Convertible Bonds will allow ACSL to raise a certain paid-in amount at the time of the issuance. In addition, conversions are expected to take place in stages, which will limit the share price impact. Conversions are expected to take place at an early stage due to the exercise price revision clause. Also, the financial soundness index will increase because the amount subject to conversion into shares will become capital funds.
- The exercise price of the Warrants is fixed at an amount equivalent to 120% of the closing price of the stock on the trading day immediately preceding the date of resolution for issuance (hereinafter, "immediately preceding trading day"), and the Warrants are expected to be exercised at a higher price than the current stock price. In addition, the number of shares to be issued upon exercise of the Warrants is fixed and the maximum number of shares to be delivered is limited, so the scale of dilution is limited."

What are the disadvantages of this scheme?

Main disadvantages of this financing method are as follows

- Due to the nature of Warrants, only a portion of funds are paid in at the time of issuance, as the full amount of funds can only be raised when the Warrants are fully exercised by the holders.
- Funds cannot be raised while the stock trades below the exercise price of the Warrants, as the allottee will not exercise the Warrants. Since the exercise price of the Warrants in this offering is fixed at a higher price than the current stock price, and an increase in the stock price is necessary for the Warrants to be exercised; therefore, the probability of their exercise is relatively low. Even if the stock price exceeds the exercise price of the Warrants, there is no guarantee that the allottee will exercise the Warrants, and there is uncertainty as to the timing of the fundraising. In addition, even if the Warrants are exercised, it takes a certain period of time to complete the exercise of the Warrants. If the liquidity of our stock decreases, it may take long time to complete the exercise.
- The Convertible Bonds may not be converted into shares if the share price is below the minimum exercise price on each conversion price revision date, and the Convertible Bonds may have to be redeemed in cash. A certain period of time is required to complete the conversion of the Convertible Bonds into shares.
- The Convertible Bonds are liabilities for accounting purposes at the time of issuance and are not included in equity, resulting in a temporary increase in leverage.
- Since this is a third-party allotment, a contract between ACSL and the allottee only, ACSL will not be able to enjoy the benefits of raising funds from an unspecified number of new investors.

Answer

Q & A on Financing (3/5)

Question	Answer
How does it compare to other funding options?	<p>After comparing this financing method with other financing methods, ACSL has selected this financing method mainly for the following reasons.</p> <ul style="list-style-type: none">▪ While raising funds by issuing new shares through a public offering or other means can raise funds at one time, significant dilution of shares will occur at one time as well. In addition, because the participation rate of general investors is uncertain, it is unclear whether sufficient funds can be raised, and ACSL decided that this is not an appropriate method of fundraising for this time.▪ Raising funds through corporate bonds or borrowing may result in a decline in financial soundness because of the interest burden and the fact that the entire amount raised is recorded as a liability. From the viewpoint of retaining a highly flexible debt financing capacity to drive future business strategies, ACSL decided that raising funds through the issuance of corporate bonds or borrowing is not a realistic option at this point in time.▪ Although raising funds through a shareholder allotment would eliminate concerns about dilution, it is unclear whether a sufficient amount of funds can be raised due to the uncertain participation rate of existing investors (allottees), and therefore ACSL decided that this is not an appropriate method of fundraising for this time.▪ So-called rights issue may not be an appropriate fundraising method, since there is a lack of track record of commitment-type rights issue transactions in Japan, and the method is still in the process of maturing, while costs such as underwriting fees are high. In addition, as with the above-mentioned capital increase through a third-party allotment to shareholders, the non-commitment rights issue is not appropriate as a method of fundraising this time because it is uncertain whether a sufficient amount of funds can be raised due to the uncertain participation rate of existing shareholders.▪ The fundraising through warrants with an exercise price revision clause is generally a scheme in which the exercise price can also be revised downward. While a downward revision of the exercise price increases the probability of exercise, there is a possibility that the exercise will be made at a price lower than the current stock price and the amount of funds raised will be less than originally planned. ACSL believes that this method of fundraising meets our fundraising needs in the sense that, while raising the funds needed for the time being by Convertible Bonds, the exercise price of the Warrants will be set higher than the current stock price, and exercises will take place while waiting for the stock price to rise in the future, making it more likely to achieve the initially-planned fundraising amount compared to Warrants with a revision clause without the lower limit.

Q & A on Financing (4/5)



Question	Answer
How will the funds to be raised be used?	<p>The funds to be raised will be used for the following purposes</p> <ul style="list-style-type: none">▪ The funds are planned to be used for R&D expenses for the development and evaluation of application-specific drones, excluding medium-sized logistics, and for the establishment of a mass production system. The funds will also be used for R&D expenses for the development and evaluation of platform drones.▪ The funds are planned to be used for working capital for R&D expenses and the establishment of a sales structure for expansion into the Indian market, ACSL's focus market at the moment, as well as into the U.S. market, which ACSL is considering to enter.▪ The funds are planned to be used for capital investment in "TAKEOFF", the ground station software developed by ACSL for setting drone routes for autonomous flight, remotely visualizing and monitoring drone information during flight.
What are the reasons for the selection of the allottees?	<p>Heights Capital Management, Inc., the asset management company of CVI Investments, Inc. (the allottee), proposed a financing through a third-party allotment. In light of their track record of investments in Japanese listed companies and its investment policy of nurturing its portfolio companies while building good relationships with them, ACSL held discussions with them on the amount to be raised, the structure of the securities to be issued, and other matters. As a result, ACSL has reached an agreement on a scheme of this fundraising that is as close as possible to our intention to realize our future business strategy and fundraising needs, and has decided to select CVI Investments, Inc., with its assets managed by Heights Capital Management, Inc., as the allottee.</p>
What is the impact of the change in major shareholders?	<p>As a result of this third-party allotment, the ratio of voting rights held by Japan Post Capital Co., Ltd. will decrease from 10.18% to 9.96%, and the Company's largest shareholder, which is a major shareholder, is expected to change. There will be no change in the number of voting rights or ranking of major shareholders.</p> <p>The policy of holding shares of common stock of the Company by Japan Post Capital Co., Ltd. will not be changed from that described in press release titled "Notice Regarding Execution of Business Alliance Agreement with Japan Post and Japan Post Capital Co" on June 15, 2021.</p>

Question	Answer
	<p>The issue price of the shares to raise funds through the issuance of new Shares is equivalent to 93% of the closing price of the immediately preceding trading day, a 7% discount, but this is in line with examples of issuance by other companies and the "Guidelines Concerning Handling of Allocation of New Shares to a Third Party" published by the Japan Securities Dealers Association. ACSL believes that this is a level that shareholders can understand given the precedents of same transactions of other companies and because it will raise the necessary funds and increase the corporate value of the company.</p>
How reasonable are the terms and conditions?	<p>With regard to the issue price of the Convertible Bonds and Warrants, ACSL requested Akasaka International Accounting, a third-party appraiser, to evaluate the issue price, and the issue price was determined within the valuation range provided, and therefore, ACSL believes that the price is appropriate and reasonable. The conversion price of the Convertible Bonds shall be revised every six months to an amount equivalent to 90% of the lowest daily VWAP during 10 consecutive trading days preceding the conversion price revision date, for the purpose of gradual exercise based on future trends in stock price, and the initial conversion price shall be set at an amount equivalent to 120% of the closing price of the immediately preceding trading day, the maximum conversion price is set at 1,985 yen, and the minimum conversion price is set at 50% of the closing price of the immediately preceding trading day, which ACSL believes will not be excessively low compared to our stock price on the immediately preceding trading day.</p>
How reasonable is it to implement the financing?	<p>Since this fundraising will result in a dilution due to an increase in the number of outstanding shares, the size of the third-party allotment is set at the minimum necessary level in light of the funding needs. In addition, this fundraising method is considered the most appropriate compared to other fundraising methods, and the amount to be paid in for the fundraising is considered to be reasonable.</p> <p>In addition, ACSL believes that a certain degree of shareholding by institutional investors who share our medium to long-term time vision for growth will enable us to achieve a capital strategy that is more favorable to our business development. We believe that, among other things, the ownership of these shares by overseas institutional investors will contribute to the overseas expansion of our business going forward, and will generally be a positive factor for our corporate value.</p>

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