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Q&A Transcript
Briefing on the Revised Full-Year Earnings Forecast for the Fiscal Year Ending April 2025

Presentation Material: Notice Regarding Revision to Consolidated Financial Forecast for the FY2025
Recording (YouTube): Recording: Briefing on the Revised Full-Year Earnings Forecast for the FY2025 (Only in Japanese)

Q: Can you explain the considerations and future outlook if LEXI-P is allocated to another customer (hereinafter referred to as Company B). Even if we assume a contract with Company B, can we expect a contract value equivalent to the previously anticipated $121 million, and is it possible to recover the initial development investment? Additionally, will there be any additional development costs for Company B, and will it result in a loss-making project? Will there be any penalties arising from the negotiations with the previous customer (hereinafter referred to as Company A)? When is the earliest possible time for receiving an order?

A: The physical component targeted by our LEXI satellite docking mechanism is installed on about 80-90% of geostationary (GEO) satellites. Therefore, the life extension (LEX) service can generally be applied to Company B's satellite without significant design modifications, and no significant additional costs would be expected.
We believe that there is a possibility for Company B to become the customer for LEXI-P and Company A could become the customer for the next LEXI satellite (second servicer). This would increase the business opportunities we can pursue. However, nothing has been decided at this point.
Regarding the contract with Company B, there is nothing definitive at this point, but of course, we will pursue profitability, so we are aiming for a reasonable revenue amount.
Originally, the contract with Company A assumed a sale of the satellite to the customer, but alternatively, we can operate the satellite and provide LEX services. The contract terms, such as the number of years of life extension, will be determined according to the customer's needs. If we assume a service structure, we will first capitalize development costs regardless of the contract form, allowing us to cease recognition of R&D costs on the income statement once the contract is concluded. This will have a positive impact the income statement.
Regarding the timeline for a contract award, we do not need to wait until a certain time to contract. It depends on how quickly we can conclude contract negotiations with the customer. It could be quite soon, and we believe a contract may happen in fiscal year ending April 2026 (FY2026) or after. Another important consideration is when the LEXI-P satellite can be launched, but since the satellite development itself is already progressing, we believe that launching within the originally anticipated period for LEXI-P (FY2027) is reasonably possible.

Q: Regarding financial strategy and capital raising, it is expected that our equity will be significantly reduced by the end of this fiscal year, with equity standing at ¥9.5 billion at the end of Q3 and an additional ¥6 billion loss in Q4? Even if the LEXI-P contract is concluded and it has the potential to positively impact equity, depending on the timing, is there a possibility of considering new financing options?

A: Firstly, we anticipate a foreign exchange loss of ¥2.3 billion due to the yen's appreciation compared to the beginning of the fiscal year. However, the foreign currency translation reserves account, a component of net assets, will increase. Therefore, part of the foreign exchange loss does not necessarily affect the reduction of equity on the B/S, and we expect sufficient equity to remain on the B/S as of April 2025.

As a listed company, we believe that raising growth capital is effective, and we will consider financing if necessary. We may proceed with financing for growth purposes, but we are not currently in a situation where we need to raise funds as rescue finance.

Q: Regarding the outlook for the fiscal year ending April 2026, how do you view project income and profit levels?

A: Firstly, backlog forms the basis of future revenue potential, and the current backlog stands at approximately ¥47 billion. This figure represents the project income potential generated from existing contracts. While there may be acceleration or delays in income recognition depending on project progress, the contracted backlog is expected to be realized over approximately 3-4 years.

In the Q2 earnings announcement for this fiscal year, we provided a guideline on future earnings forecasts. Considering the downward revision of this fiscal year's performance, we plan to initially present earnings forecasts based on contracted projects. If new contracts accumulate, we will consider upward revisions. Therefore, the earnings forecast presented at the beginning of the fiscal year ending April 2026 will be relatively conservative, based on income from existing contracts.

We believe that the break-even point for gross profit is achievable due to the increase in projects generating gross profit. Regarding operating profit, we anticipate that achieving break-even in the fiscal year ending April 2026 will be challenging, but significant improvement is expected from this fiscal year onwards due to the aforementioned reduction in R&D expenses and the gradual contribution of improved gross profit margins.

Q: Regarding LEXI-P, based on previous explanations, I understand that it is a commercial/government project, and the satellite is sold outright (asset transfer). If the customer becomes a commercial company, will the satellite become an asset owned by Astroscale, changing the business model to one that generates recurring revenue? Or is the commercial customer considering purchasing the satellite? Please also explain the impact on the B/S.

A: Various forms of contract are possible for the LEXI service. For example, we may own the satellite as an asset and provide LEX services to customers based on a service contract. In fact, there are potential private customers considering long-term life extension for their satellites. If a specific customer uses our satellite for most of its designed lifespan, the contract may be treated as a finance lease in accounting. The impact on the B/S varies depending on the individual contract details, but the basic idea is that if it is a service contract, we will own the satellite as an asset and depreciate it.

Q: In the case of a long-term LEXI service contract, will it be received as an advance payment or recorded as accounts receivable? Will the contract be tied to the customer?

A: In the case of a finance lease, the unpaid lease revenue will be booked on the B/S. Regardless of the transaction form, for long-term contracts, a certain consistent amount will be received during the contract period.

Q: In the case of a service contract, the B/S becomes heavy, so are options such as utilizing debt finance or reducing assets through leaseback conceivable?

A: Various discussions are currently underway. We are considering options such as utilizing finance leases and sale-and-leaseback methods. We also are considering utilizing debt finance, but the extent of debt funding will be determined taking into account the D/E ratio and interest rate levels. We are fully aware of the points you have raised.

Q: In the LEXI service business, which is more profitable; government projects or long-term contracts with commercial companies? Is it better to take the form of a service contract in terms of profitability evaluation?

A: Regarding profitability, we believe the margin profile will ultimately be around comparable levels. In terms of cash flow

(CF), an outright sale is better as it spans over a period of 3-4 years. In terms of finance costs, government projects may be advantageous, but there is a market for potentially servicing many commercial GEO satellites. Ignoring this market would mean missing out on revenue opportunities, so it is important to combine both to capture more of the overall potential revenue pie and accordingly maximize profit.

Q: Will the long-term LEX service be provided while the satellite remains docked with the customer's satellite?
A: During the service period, the satellite will remain docked.