Ispace inc.

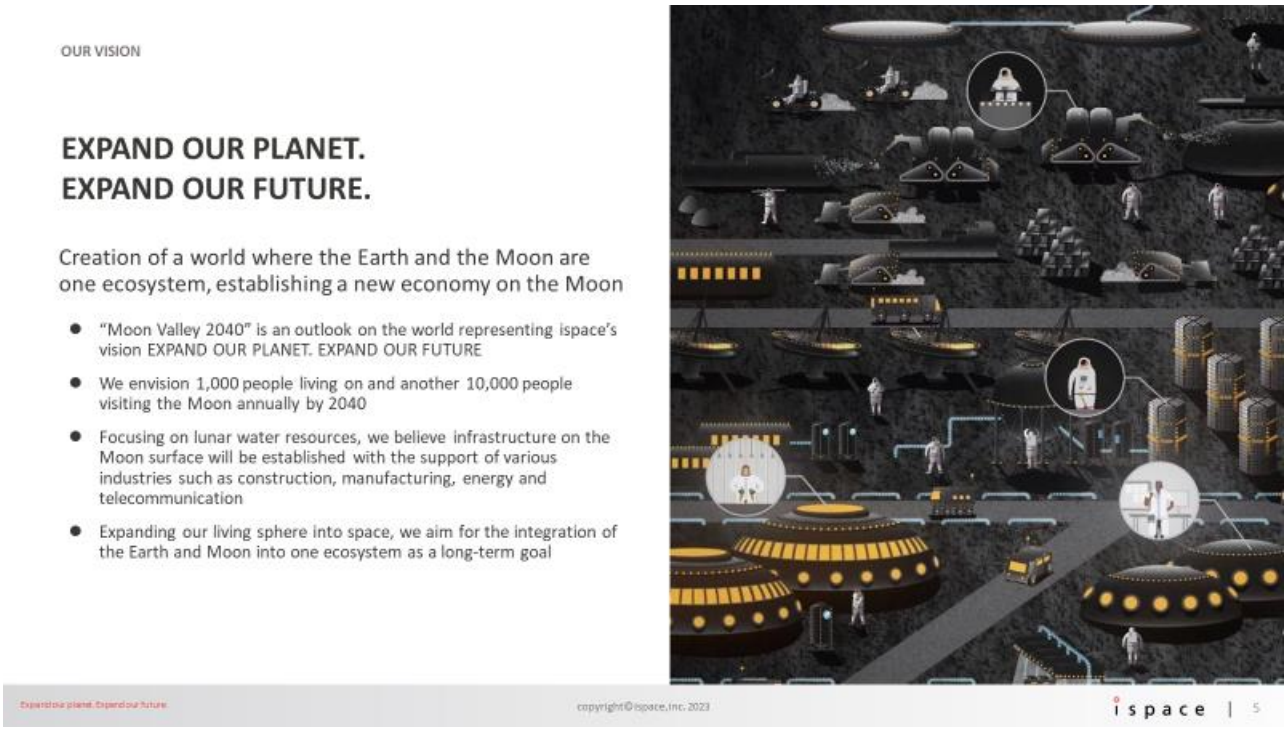
Transcript of Financial Results Briefing for FY2024 Q2

November 24, 2023

Takeshi Hakamada: Hello, I am Takeshi Hakamada, Representative Director and CEO of ispace. Thank you very much for taking the time today to participate in the financial results briefing for the second quarter of the fiscal year ending March 31st, 2024, for ispace Inc.

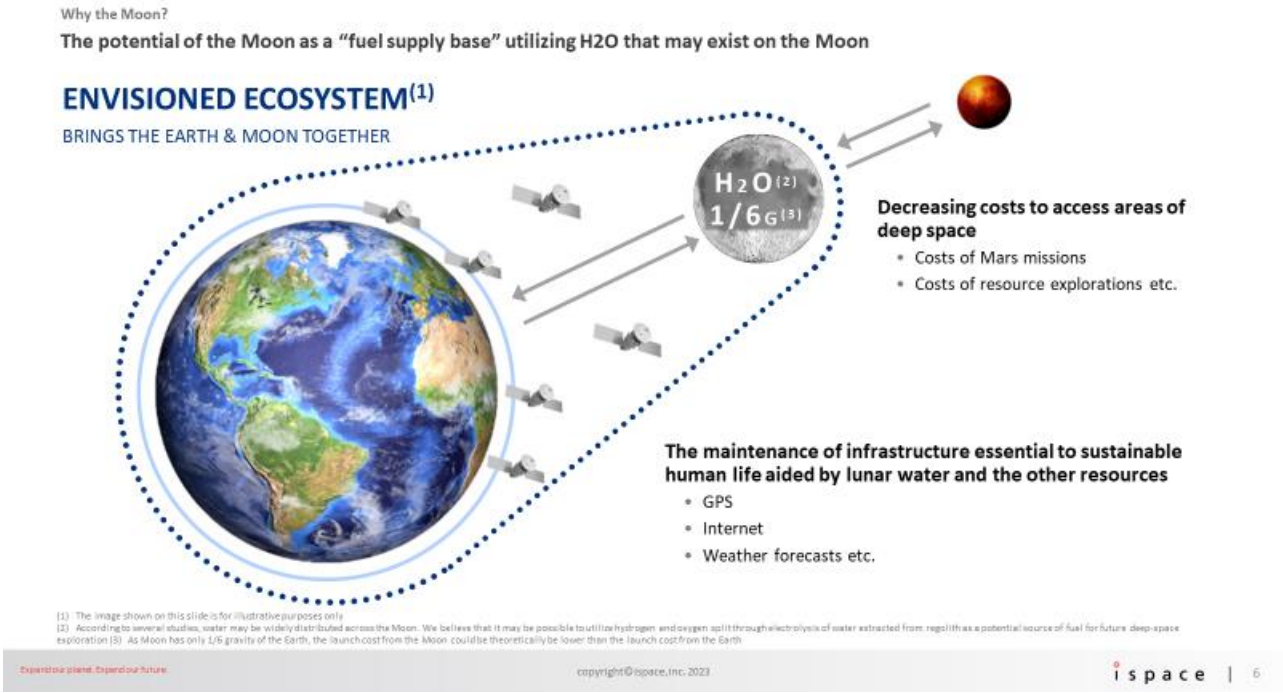
First, let me briefly explain the flow of today's meeting. At the beginning of the presentation, I will give a business overview of the company and the business highlights for the second quarter of the fiscal year ending March 31st, 2024. After that, CFO Nozaki will explain the financial highlights and KPIs for the second quarter of the current fiscal year. After the presentation, we will have the QA session.

Business Overview of ispace



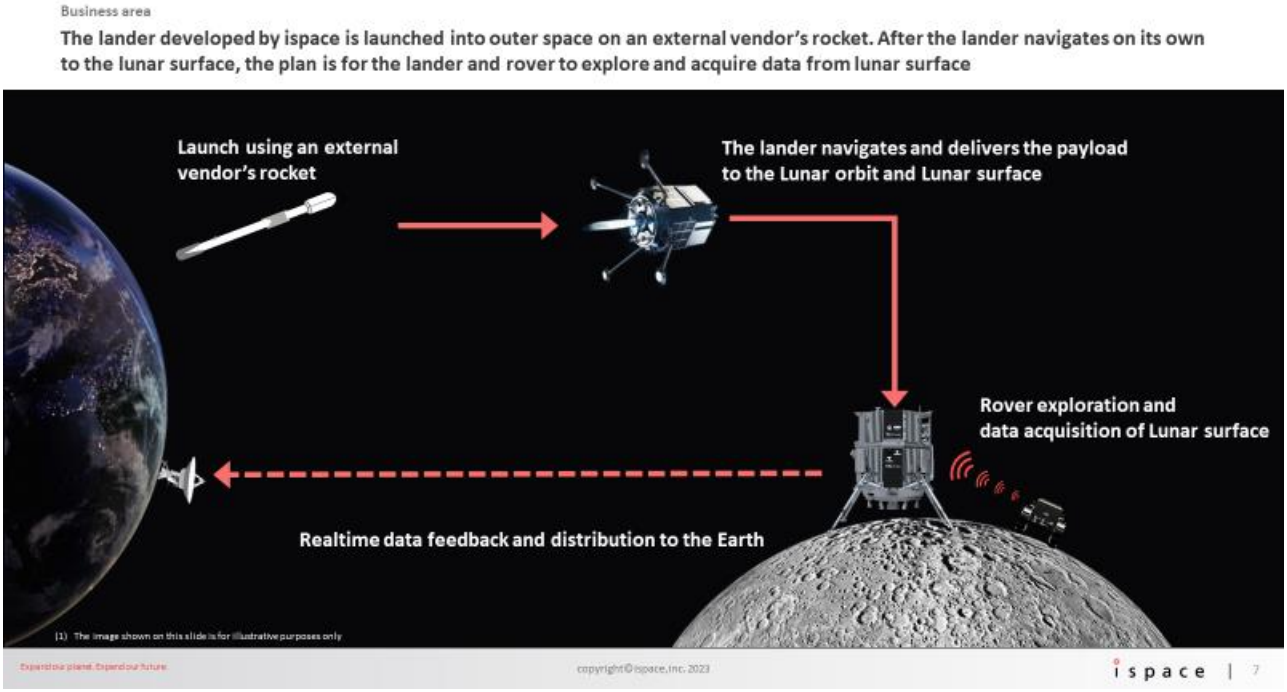
Takeshi Hakamada: Many of you might have already known about our company and business, however, since we have just listed on the Growth Market of the Tokyo Stock Exchange this fiscal year, let me again provide a brief overview of our business for attendees who are not familiar with ispace.

Our vision is to expand our living sphere into space and create a world where the Earth and the Moon are one ecosystem. We have a concept called "Moon Valley 2040" to realize this vision. We envision that after 2040 about 1,000 people live and work on the Moon and create an economy, and 10,000 people travel between the Earth and the Moon every year. We are aiming to contribute to the realization of this world.

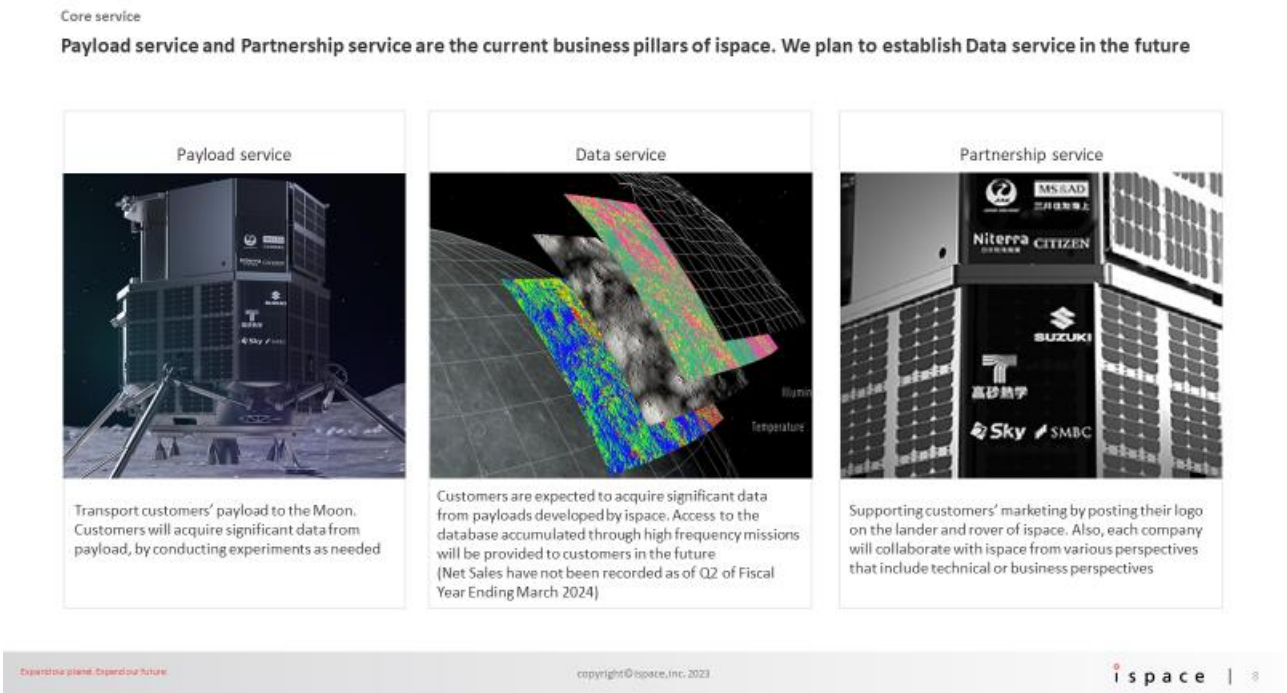


Takeshi Hakamada: Why "the Moon"? How is it possible to create an economy on the Moon? It's because there is water on the Moon. The liquid hydrogen and liquid oxygen produced by separating lunar water can be used as propellant for rockets. Once we can deploy gas stations in space for refueling, we can significantly reduce the cost of space transportation. This is because the Moon has only about 1/6th the gravity of the Earth and we can transport into space with far less energy than the Earth. As a result, we can improve the economic rationale compared to what it is today.

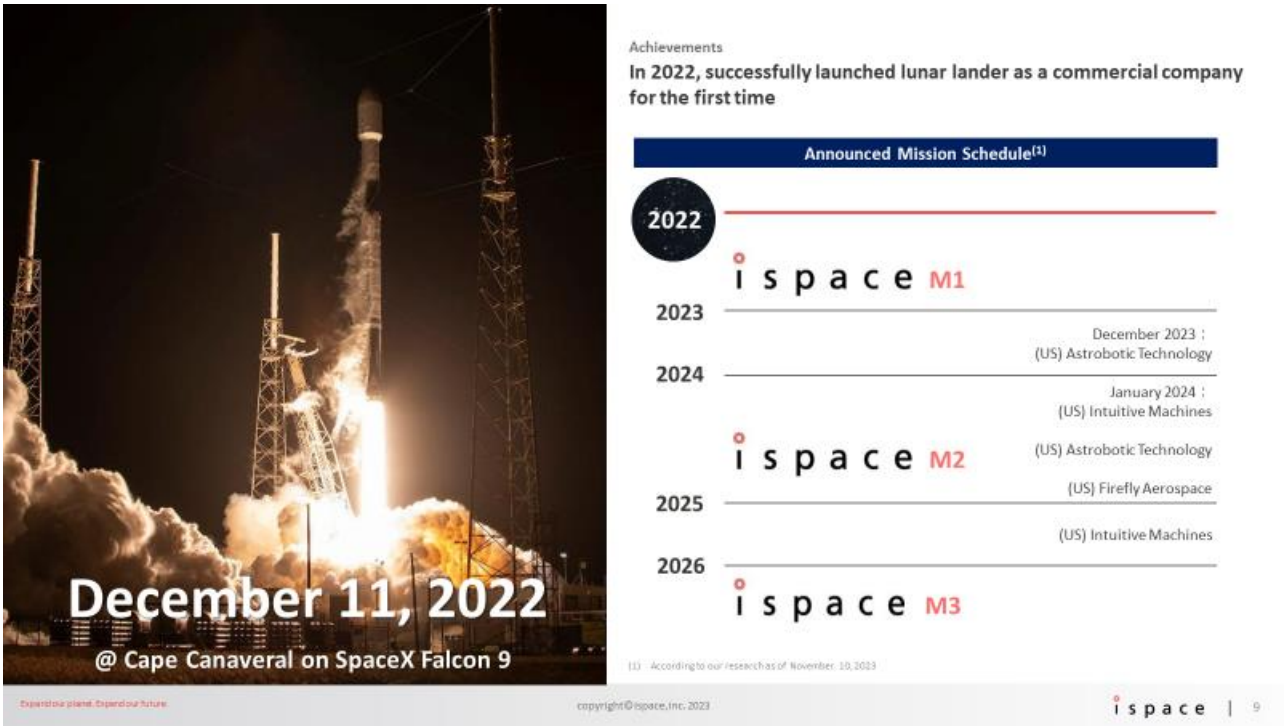
If we can reduce the transportation cost in space, we can access Mars, asteroids, and other areas known as "deep space." This would expand the possibilities for humanity, increasing our activities beyond Earth and benefit, from further acquisition of space resources, for example. At the same time, more importantly, it will also help ensure the sustainability of the Earth itself. We are becoming increasingly dependent on space infrastructure, including GPS, and communications that supports modern life on the Earth now and in the future. In order to maintain this space infrastructure in an economically reasonable manner, space resource utilization is the key. We are going to outer space and the Moon since we want to continue living on the Earth. ispace wants to become a pioneer in building a new society that extends into space.



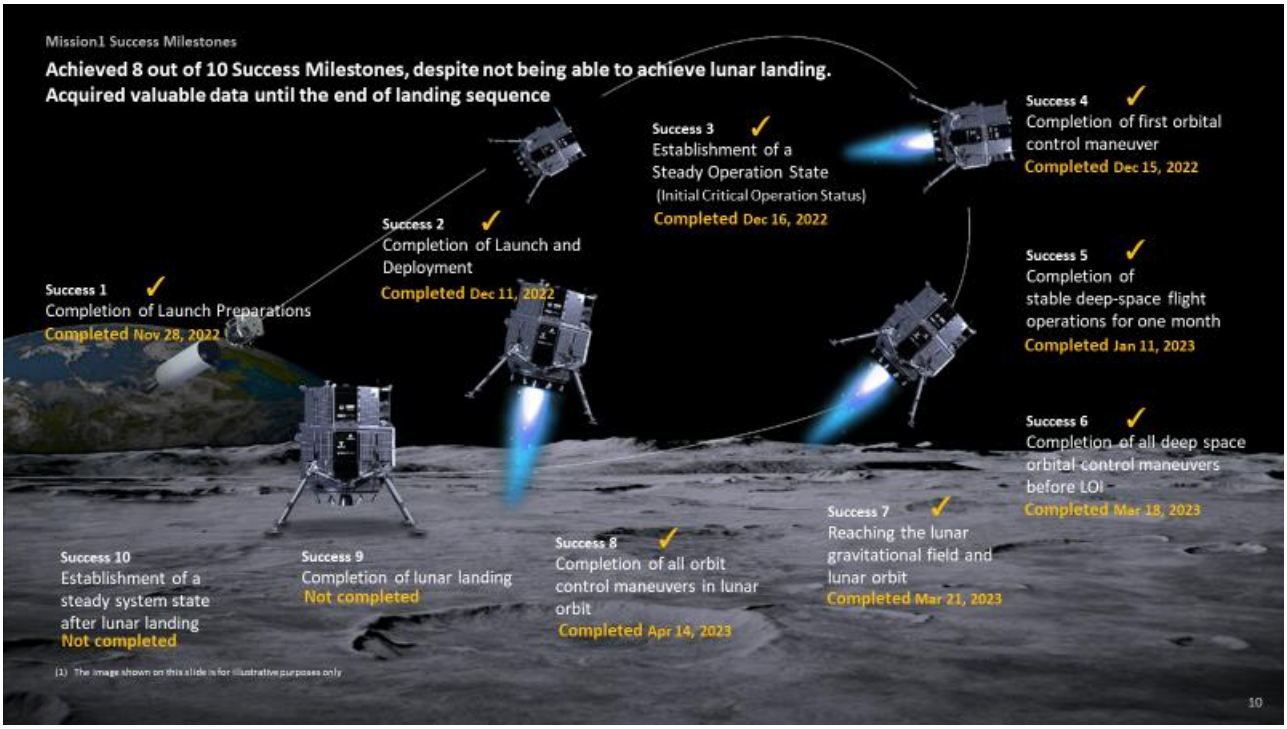
Takeshi Hakamada: ispace is developing a lunar lander and providing services to transport customer cargo (called a payload) to the Moon. This is a general mission overview. First, the lander will be launched from the Earth into space using a commercially available launch service, such as SpaceX Falcon9. Then, the lander is deployed from the rocket and uses its own engines to navigate through space and deliver customer payloads to lunar orbit or to the lunar surface. After landing on the Moon, the lander and lunar rover will acquire lunar surface data and send it back to the Earth.



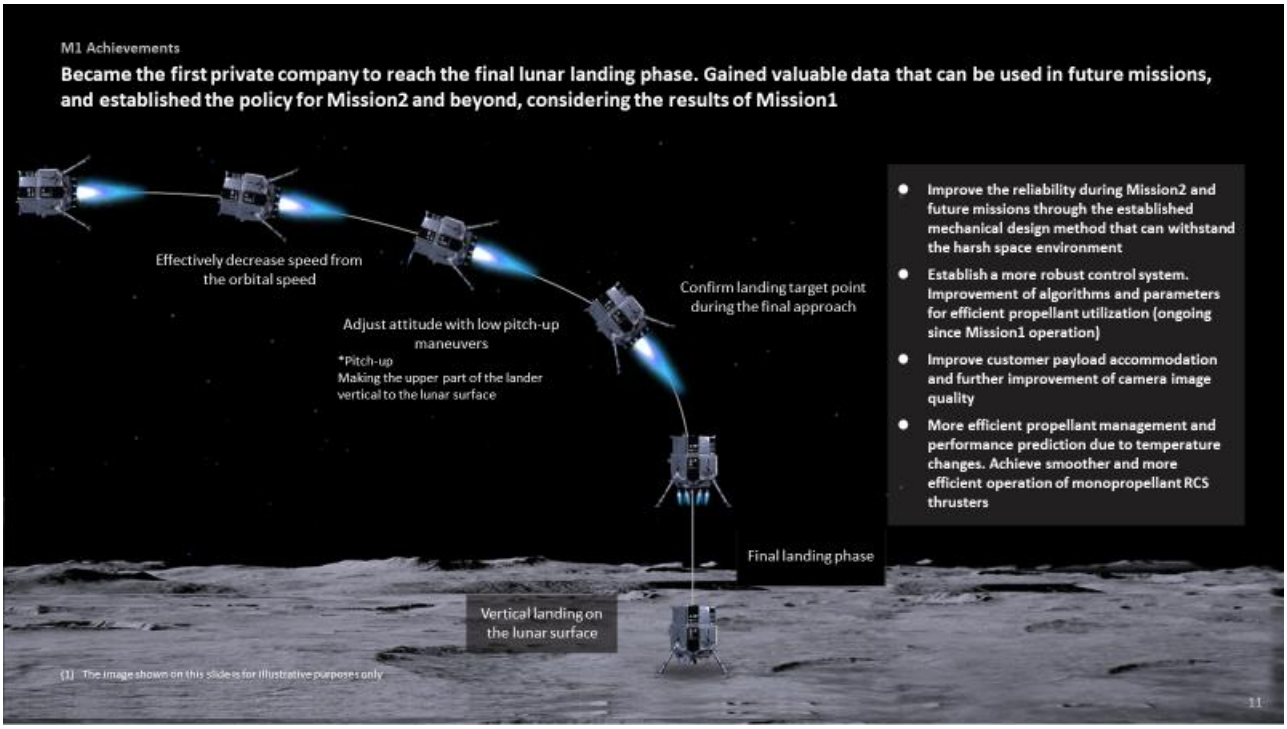
Takeshi Hakamada: We have three major services to customers utilizing the infrastructure to transport payloads to the Moon. First, a payload service to transport customers' cargo, payloads, to the Moon. This service charges for customers' payloads at a standard unit price of $1.5M/kg. The second one is the data service. Customers can buy the data that ispace obtained from our internal payloads. In the future, we plan to conduct high frequency missions, two to three missions per year, to acquire a variety of data sets, and we plan to provide customers with access to our database. The third one is our partnership service. This is our longest-running business, which we have been working on since we participated in the Google Lunar XPRIZE. We place our sponsor logos on the ispace lander and rover, receive sponsorship fees in exchange for marketing support, and technical & business development collaboration with our sponsors. We have already recorded revenues of the partnership and payload services, and we further plan to accelerate the payload service revenue going forward. We also plan to expand the data service in the future.



Takeshi Hakamada: As we have announced on December 11th, 2022, ispace became the first commercial lunar transportation provider in the world that successfully launched a lunar lander, and in April 2023 we attempted to land on the Moon. There are several competitors, especially in the U.S., who are planning to do the same kind of business, but we have successfully completed the development of the lander and demonstrated a real mission to the Moon ahead of any other players. We are proud to be in a leading position, driving the industry globally.



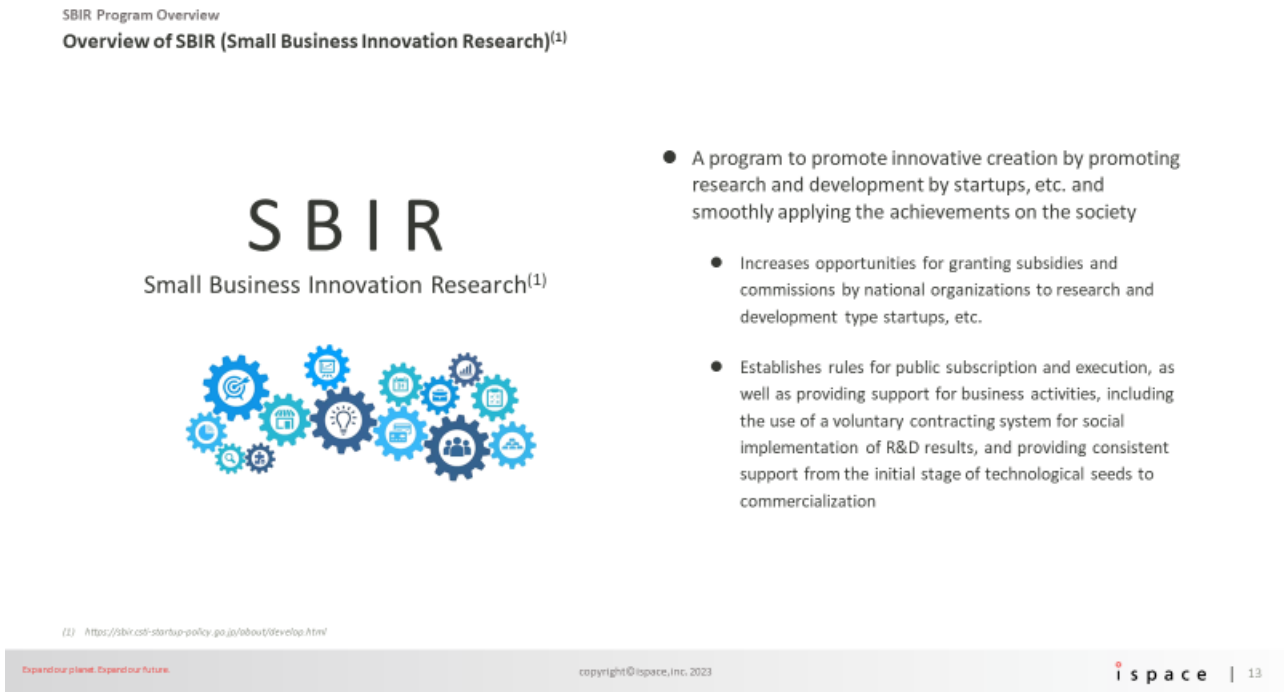
Takeshi Hakamada: Approx. 4 months after the launch on December 11th, 2022, our lander reached lunar orbit, followed by approx. one month of lunar orbiting, and attempted to land on the Moon on April 26th, 2023 (Japan Standard time). As the slide shows, we defined our mission, broken down into a total of 10 Success Milestones, among which we achieved up until Success 8, the completion of an orbit control maneuver in lunar orbit. ispace took on the first mission as a technical verification. Although we were not able to achieve Success 9 and 10, we believe that we were able to achieve great success through Success 1 to 8.



Takeshi Hakamada: In the process of achieving Success 8, we recognized that there were no issues with our hardware including the lander structure, propulsion system, and electronic system etc. Regarding the root cause analysis of Success 9 incompletion, it is identified that the software of the lander had issues related to altitude recognition, and we have already been taking measures to improve for Mission2. We are proud of ourselves that we reached the final landing phase to the Moon surface as the world's first commercial company. It also shows how significant it is to be able to promptly make use of the experience from Mission 1 to Mission 2 and other future missions.

That was an overview of our business. Next, we will report on our business highlights for the second quarter of the fiscal year ending March 2024.

Business Highlights for FY2024 Q2



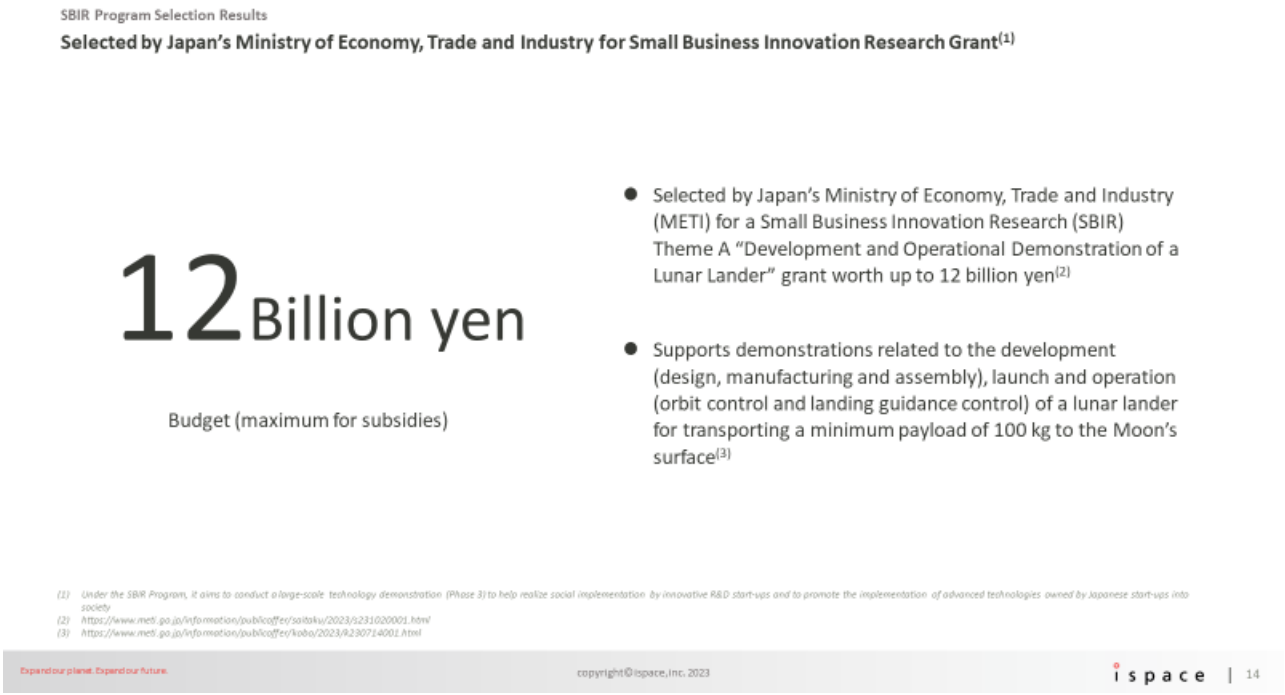
Takeshi Hakamada: To begin with, I will give an overview of subsidy of 12 billion yen obtained under the SBIR program, which was released on October 20th. The SBIR program is initiated by the Japanese government to promote innovative creation in Japan by driving research and development activities by companies like startups and smoothly applying the achievements to society.

The program mainly aims to increase opportunities to grant subsidies and commissions from national organizations to R&D-type startups and other similar entities, as well as to establishes rules for procurement and execution while providing support for business activities, including the use of a voluntary contracting system for social implementation of R&D results, and providing consistent support from the initial stage of technological seeds to commercialization.

SBIR support is part of Prime Minister Kishida administration's five-year startup plan in which around 200 billion yen is planned to be provided to startups over five years under the SBIR program.

Especially in the U.S., SBIR is utilized as a system to foster technology in private companies and expand the government's technological options.

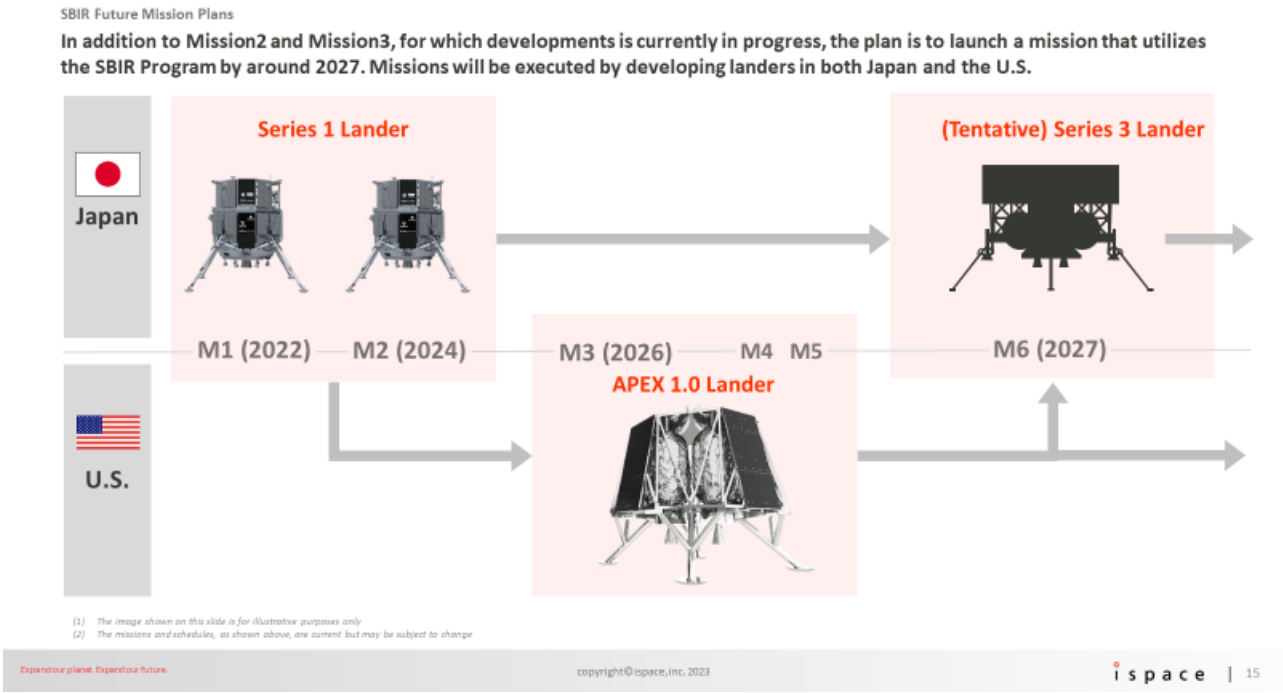
We recognize it is a positive step by the Japanese government to support development and operational demonstration of lunar landers, by programming into this SBIR framework.



Takeshi Hakamada: Regarding the selection results by Japan's Ministry of Economy, Trade and Industry for SBIR, this program provides grant worth up to 12 billion yen towards the theme of lunar surface lander development and operational demonstration.

Specifically, the requirements include the development of a lunar surface lander to transport a payload of over 100 kg to the lunar surface, and a plan to launch and operate it by the end of fiscal year ending 2027.

As announced on October 20th, ispace was selected as a subsidized business with grant worth up to 12 billion yen.



Takeshi Hakamada: Using the development funds from SBIR, we will start developing a new lander, which we are tentatively internally calling “Series 3”. This Series 3 lander will be developed mainly in Japan, continued on the previous Mission1 and the upcoming Mission2 in the next year, and operated in parallel with the APEX 1.0 lander, developed mainly in the U.S., that we announced on September 28th. In the current plan, the Series 3 lander is expected to be used in our Misson6 in 2027.

Both the Series 3 and APEX 1.0 landers will be developed using our achievements and knowledge from Series 1 lander. In addition, as we will maximally share technical knowledge between Series 3 and APEX 1.0, we believe that we can develop more technically mature landers.

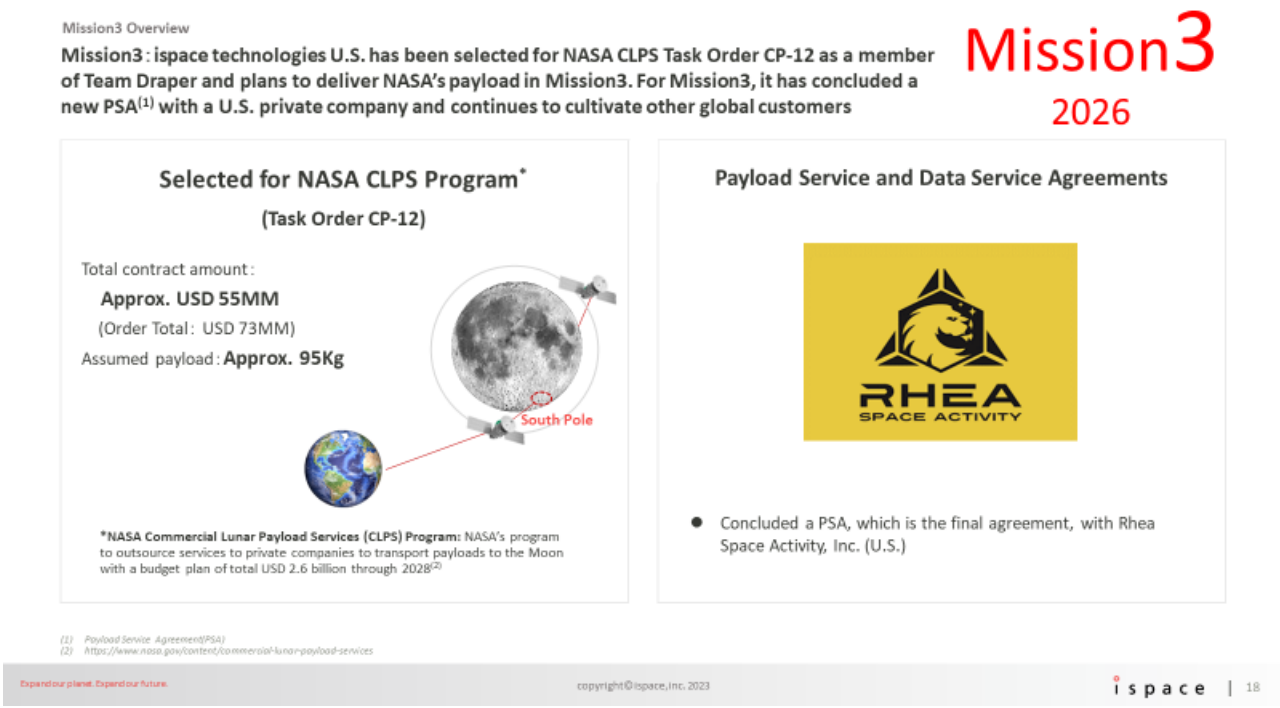
Takeshi Hakamada: Now, I would like to report on our development progress for each mission.

Starting with Mission2, assembly and preparation are underway for testing in a facility held by JAXA in Japan and in ArianeGroup's facility in Germany. We are also planning to equip the micro rovers developed by our European subsidiary in Luxembourg to the lunar surface, which is currently being developed as planned.

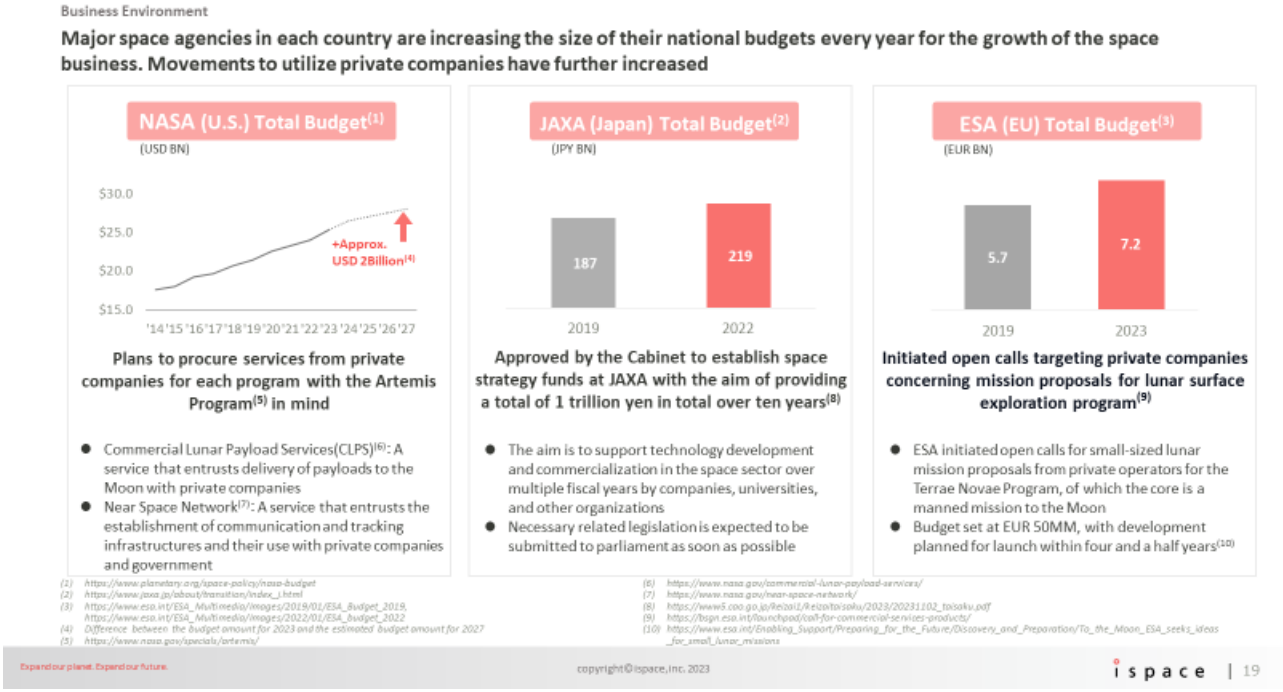
As for revenue, the payload customers that has been finalized for Mission2 are four companies in total worth approx. $16 million in total contract amount.

Takeshi Hakamada: We are planning to make a press announcement* regarding the updates of Mission2 to the media on Thursday the 16th at 10:00 a.m. Japan time. This press conference will be live streamed with translation, and anyone can watch from this link. Please check our SNS for more details out. Please stay tuned!

*The recorded video is available on our YouTube channel.



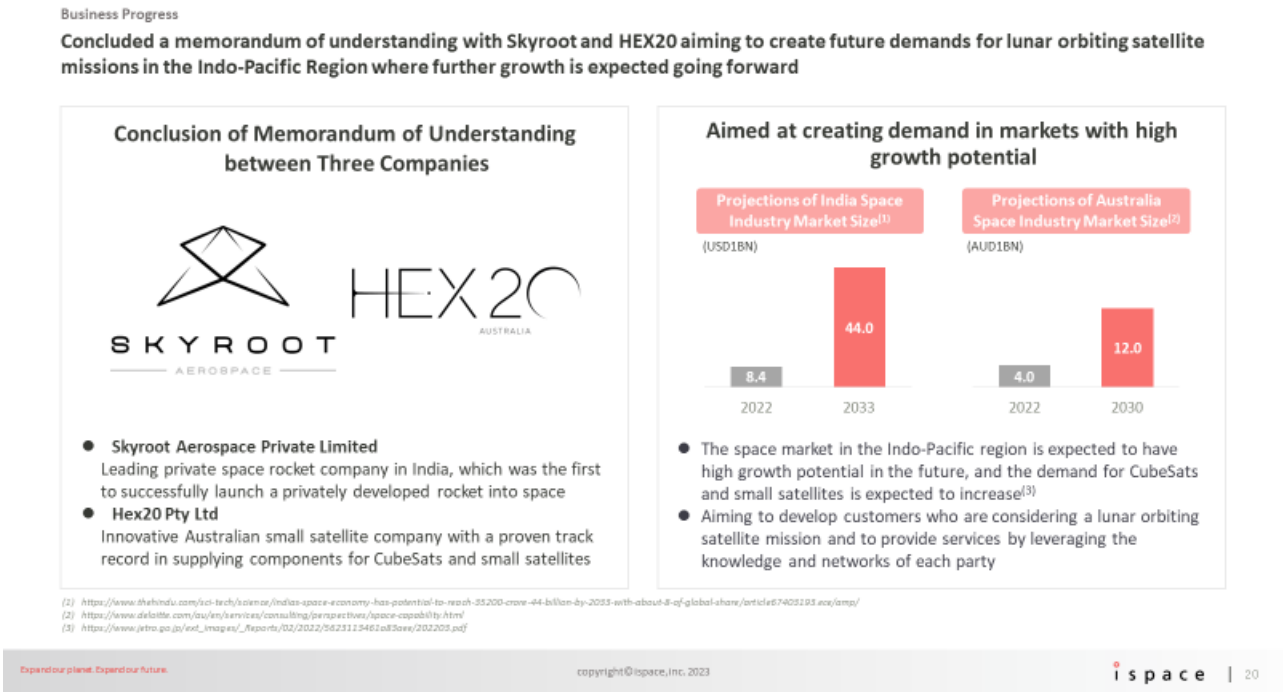
Takeshi Hakamada: Next, I will provide an overview of Mission3. As recently announced, the launch of Mission3 is expected to be in 2026 as of today, and the development of APEX 1.0 is being progressed in our subsidiary, ispace technologies U.S., located in Denver, Colorado. In Mission3, our American subsidiary has been selected for NASA CLPS Program as a member of Team Draper and plans to deliver NASA's payload. The total contract amount of the program is approx. 55 million USD. In addition to this, we have concluded a new PSA agreement, the final agreement, with a private U.S. company "RHEA SPACE ACIVITY". We will continue to focus on cultivating global customers and increasing the total contract amount.



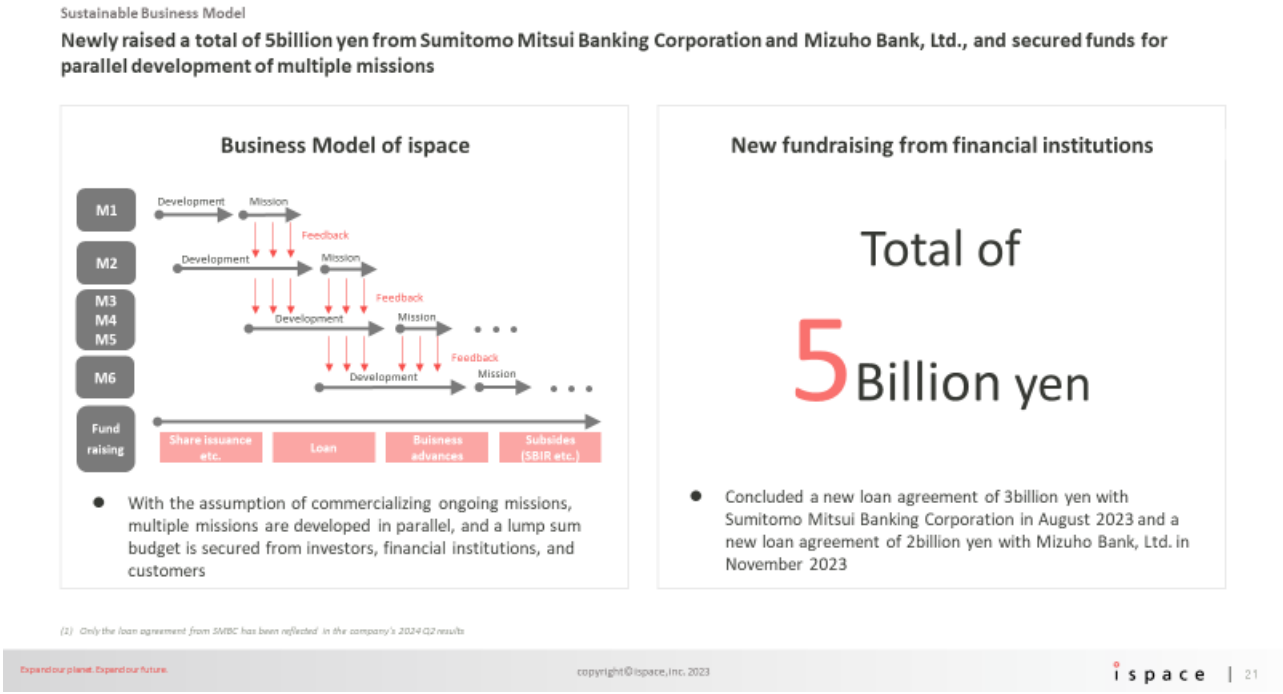
Takeshi Hakamada: Following Misson2 in 2024 and Misson3 in 2026, we are planning lunar missions with high frequency, which we consider there is a strong tailwind of recent business environment to enable the plan.

Major space agencies in each country including NASA are increasing the size of their budgets every year. Along with this, movements to utilize private companies have further increased.

In Japan, on November 2nd , the Japanese Cabinet approved space strategy funds at JAXA worth one trillion yen in total over ten years. We expect this will be a strong tailwind to accelerate our business.



Takeshi Hakamada: Payload needs to the Moon are not limited to delivery to the lunar surface. Recently, there is also a growing need for delivering CubeSats and small satellites to the lunar orbit along with increasing demand for science, education, and national security-related services in lunar orbit. Especially, the Indo-Pacific region is predicted to have high growth in the market driven by many small startup companies entering the space market. We concluded a memorandum of understanding with Skyroot, the first Indian company to successfully launch a privately developed rocket into space, and HEX20, an Australian company with a proven track record in supplying components for CubeSats and small satellites, aiming to create a demand for future lunar orbiting satellite missions. Already through Misson1, ispace has successfully demonstrated an injection to the lunar orbit in Success 7 and completed all orbit control maneuvers in lunar orbit in Success 8. Going forward, the three companies will combine their knowledge base and networks to open the market to various customers in the Asia Pacific region, who may be considering lunar orbiting satellite missions.



Takeshi Hakamada: In this way, we are building a business model that ensures business sustainability by developing Mission2 and Mission3 as well as new Mission6 in parallel, and providing feedback from one mission to the following missions. In order to realize this, we must create a strong financial base to cover the entire business plan of proceeding multiple missions, rather than preparing funds for a single mission, through diverse funding methods including equity finance, bank loans, advanced cash in from business and subsidies such as SBIR.

In light of this, as mentioned earlier, we have raised 3 billion yen from Sumitomo Mitsui Banking Corporation in August and 2 billion yen from Mizuho Bank in November for a total of 5 billion yen, in addition to the subsidy support from the SBIR program, thus building a strong financial base.

Strengthening Organizational Structure

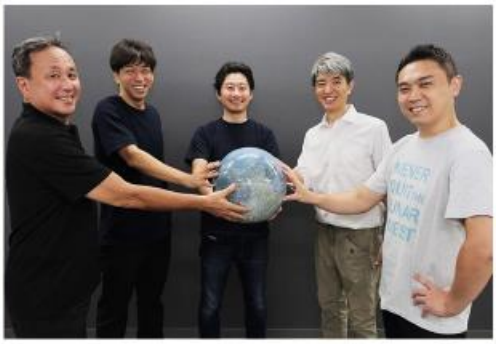
Kenichi Imamura has been appointed as the company's new Chief People Officer (CPO), a new position established to accelerate the development of a global organization

CPO

Kenichi Imamura

- Graduated from the Department of Naval Architecture and Ocean Engineering at the University of Tokyo
- At Recruit Co., Ltd., where he worked for 22 years, he spent over half of his career in human resources management and engaged in overall human resources operations centering on system design as well as management of holding companies and promotion of overseas businesses
- Also at Z Holdings, Inc., where he worked later, he oversaw human resource development and group organization restructuring as Executive Officer and General Manager of the Human Resources Department
- To realize his personal wish to create a bright future through people in the field of "space," he joined ispace as CPO in October 2023

CPO Kenichi Imamura



From left : CRO Atsushi Saiki, CTO Ryo Ujiie, CEO & Founder Takeshi Hakamada, CPO Kenichi Imamura, CFO Jumpei Nozaki

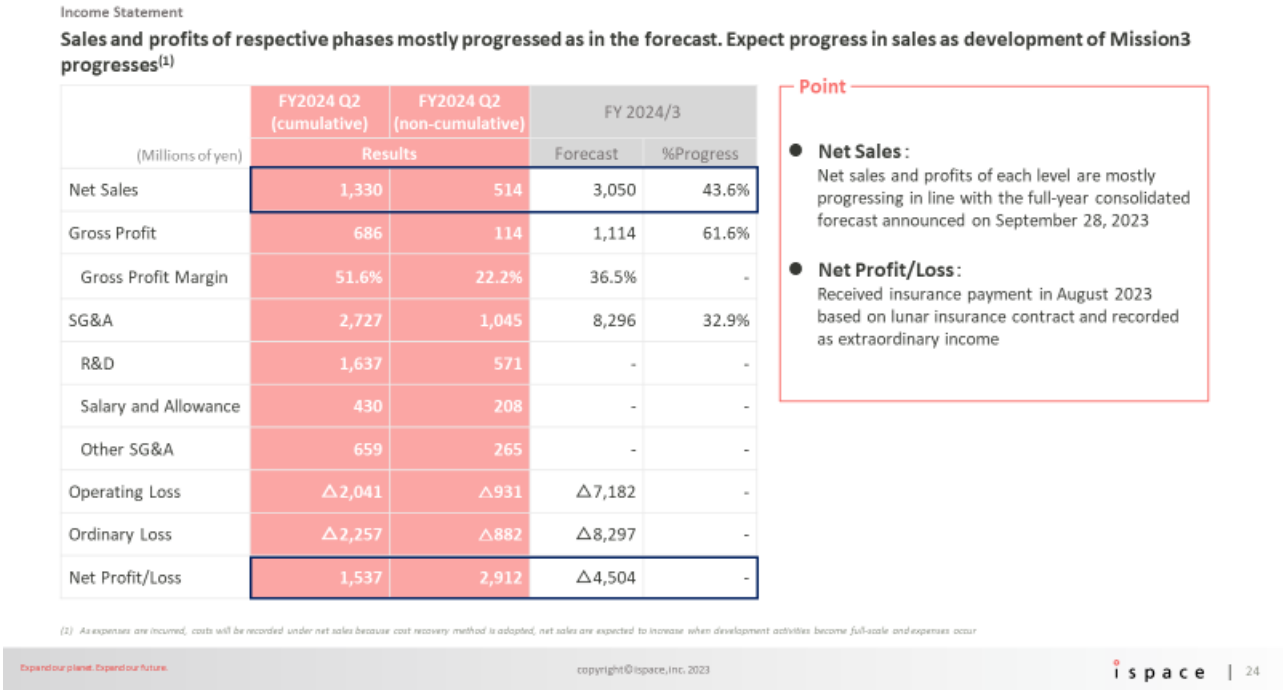
Takeshi Hakamada: As for strengthening organizational structure, a new position Chief People Officer (CPO) was established to accelerate the development of a global organization and Kenichi Imamura, who has over 20 years of experience in human resources and management planning in Japan, Europe, and the U.S., was appointed as CPO, on October 1st, 2023.

Mr. Imamura handled overall human resources centering on HR system design at the company named Recruit, as well as the management of holding companies and promotion of overseas businesses. At Z Holdings, he was in charge of human resource development and group organization restructuring as Executive Officer and General Manager of the Human Resources Department.

He joined ispace in October 2023 as CPO to realize his wish to create a bright future through people in the field of space.

That concludes the business highlights for the second quarter of the fiscal year ending March 31st, 2024. Next, CFO Nozaki will report on the quarter's financial highlights.

Financial Highlights for FY2024 Q2



Income Statement

Sales and profits of respective phases mostly progressed as in the forecast. Expect progress in sales as development of Mission3 progresses(1)

(Millions of yen)	FY2024 Q2 (cumulative) Results	FY2024 Q2 (non-cumulative) Results	FY 2024/3 Forecast	FY 2024/3 %Progress
Net Sales	1,330	514	3,050	43.6%
Gross Profit	686	114	1,114	61.6%
Gross Profit Margin	51.6%	22.2%	36.5%	-
SG&A	2,727	1,045	8,296	32.9%
R&D	1,637	571	-	-
Salary and Allowance	430	208	-	-
Other SG&A	659	265	-	-
Operating Loss	△2,041	△931	△7,182	-
Ordinary Loss	△2,257	△882	△8,297	-
Net Profit/Loss	1,537	2,912	△4,504	-

Point

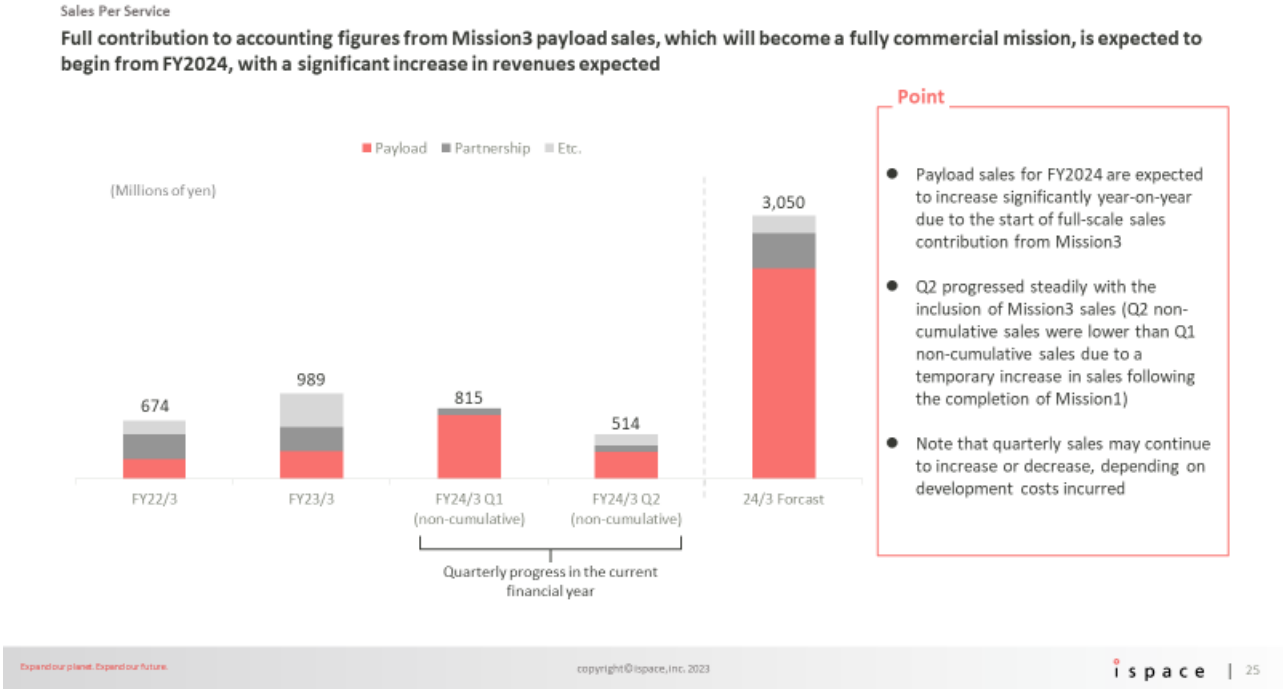
- **Net Sales**: Net sales and profits of each level are mostly progressing in line with the full-year consolidated forecast announced on September 28, 2023
- **Net Profit/Loss**: Received insurance payment in August 2023 based on lunar insurance contract and recorded as extraordinary income

(2) As expenses are incurred, costs will be recorded under net sales because cost recovery method is adopted, net sales are expected to increase when development activities become full-scale and expenses occur

Jumpei Nozaki: Hello, I am Jumpei Nozaki, the Director and CFO. I would like to explain the financial highlights for the second quarter of this fiscal year.

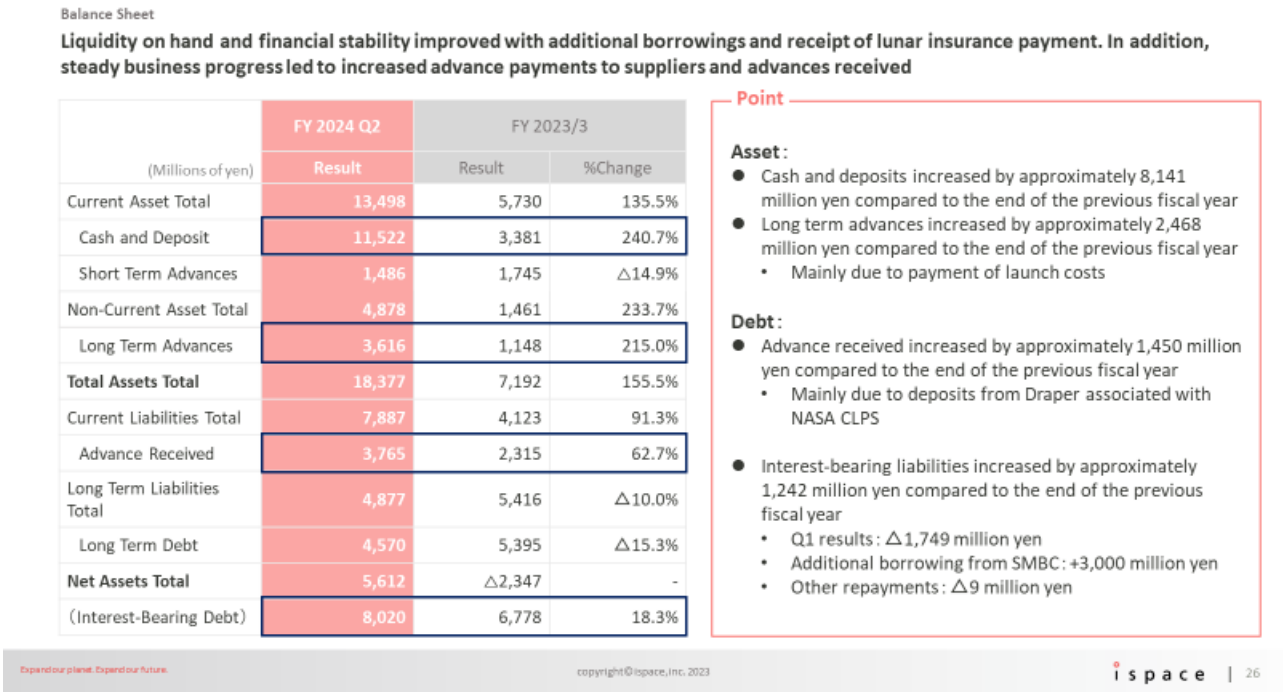
The table shows, from left to right, the cumulative total sales from Q1 to Q2, non-cumulative sales in Q2, and the full-year consolidated forecast for the fiscal year ending March 2024, which was revised on September 28th, 2023.

Both sales and each level of profit were generally in line with our revised full-year consolidated forecast. In August 2023, we received an insurance payment based on our lunar insurance contract and recorded this as extraordinary income, resulted in the company to temporarily turn profitable.



Jumpei Nozaki: Regarding sales for each service, the third graph from the right shows the non-cumulative sales in Q1, and the second graph shows the non-cumulative sales in Q2 of this fiscal year. The cumulative total sales from Q1 to Q2 is approx. 1.3 billion yen, which has already exceeded sales for the previous fiscal year. Although non-cumulative sales in Q2 decreased compared to Q1, this was mainly due to the recording of approx. 570 million yen of one-time sales along with the completion of Mission1 in Q1. Fiscal year ending March 2024 payload sales is expected to increase significantly on a year-on-year basis due to the start of full-scale sales contribution from Mission3.

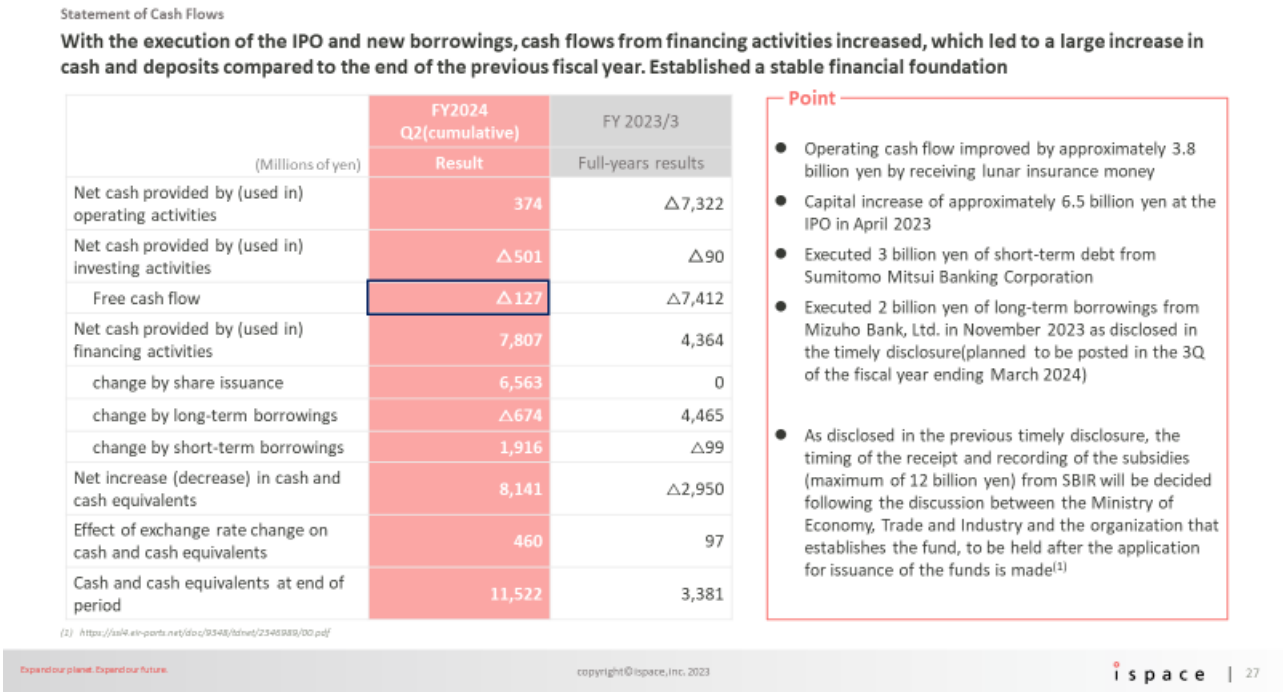
Since our company records sales in accordance with an accounting standard called the cost recovery method, quarterly sales can either increase or decrease depending on when development costs are recorded. Please note that it does not necessarily increase evenly or linearly from quarter to quarter.



Jumpei Nozaki: Next, the balance sheet. Looking at current assets, cash and deposits was 11.5 billion yen, an increase of approx. 8.1 billion yen compared to the previous fiscal year end due to additional borrowings and the receipt of the lunar insurance payment. Out of 4.8 billion of non-current assets, long term advances were 3.6 billion yen, an increase of approx. 2.4 billion yen compared to the previous fiscal year end. This was mainly due to payment of launch costs. This increase of advances indicates that our business has been making a steady progress.

On the liability side, current liabilities were 7.8 billion yen and long-term liabilities were 4.8 billion yen. Out of the current liabilities, advances received was 3.7 billion yen, an increase of approx. 1.4 billion yen from the previous fiscal year end. This was mainly due to cash receipt through Draper associated with revenue from NASA CLPS program.

Interest-bearing debt was 8.0 billion yen, an increase of approx. 1.2 billion yen compared to the previous fiscal year end, mainly due to an additional borrowing of 3 billion yen from Sumitomo Mitsui Banking Corporation in August 2023.



Statement of Cash Flows

With the execution of the IPO and new borrowings, cash flows from financing activities increased, which led to a large increase in cash and deposits compared to the end of the previous fiscal year. Established a stable financial foundation

(Millions of yen)	FY2024 Q2(cumulative) Result	FY 2023/3 Full-years results
Net cash provided by (used in) operating activities	374	△7,322
Net cash provided by (used in) investing activities	△501	△90
Free cash flow	△127	△7,412
Net cash provided by (used in) financing activities	7,807	4,364
change by share issuance	6,563	0
change by long-term borrowings	△674	4,465
change by short-term borrowings	1,916	△99
Net increase (decrease) in cash and cash equivalents	8,141	△2,950
Effect of exchange rate change on cash and cash equivalents	460	97
Cash and cash equivalents at end of period	11,522	3,381

Point

- Operating cash flow improved by approximately 3.8 billion yen by receiving lunar insurance money
- Capital increase of approximately 6.5 billion yen at the IPO in April 2023
- Executed 3 billion yen of short-term debt from Sumitomo Mitsui Banking Corporation
- Executed 2 billion yen of long-term borrowings from Mizuho Bank, Ltd. in November 2023 as disclosed in the timely disclosure(planned to be posted in the 3Q of the fiscal year ending March 2024)
- As disclosed in the previous timely disclosure, the timing of the receipt and recording of the subsidies (maximum of 12 billion yen) from SBIR will be decided following the discussion between the Ministry of Economy, Trade and Industry and the organization that establishes the fund, to be held after the application for issuance of the funds is made(1)

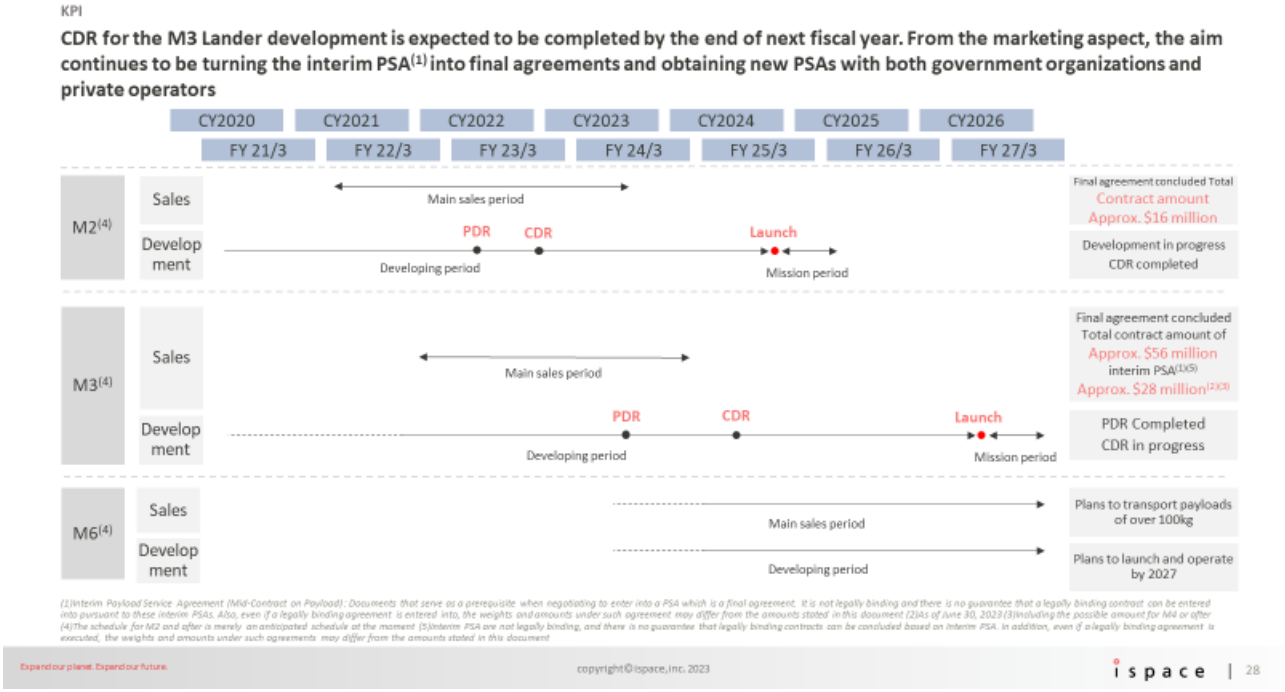
(1) https://ssl4.eir-parts.net/doc/9348/tdnet/2346989/00.pdf

Expand our planet. Expand our future.

Jumpei Nozaki: Cash flows from operating activities improved due to the receipt of the lunar insurance payment of approx. 3.8 billion yen. Cash flows from financing activities also improved due to capital increase of approx. 6.5 billion yen associated with the IPO in April and short-term borrowings of 3 billion yen from Sumitomo Mitsui Banking Corporation in August.

As previously mentioned, long-term borrowings of 2 billion yen from Mizuho Bank is planned to be recorded in the Q3 of the current fiscal year, therefore, the balance sheet and cash flow statement for Q2 does not include the borrowing amount.

In terms of the SBIR program subsidies of 12 billion yen, the timing of the receipt and recording to financial statements will be determined based on discussion between METI, the Ministry of Economy, Trade and Industry, after the application to be conducted by ispace.

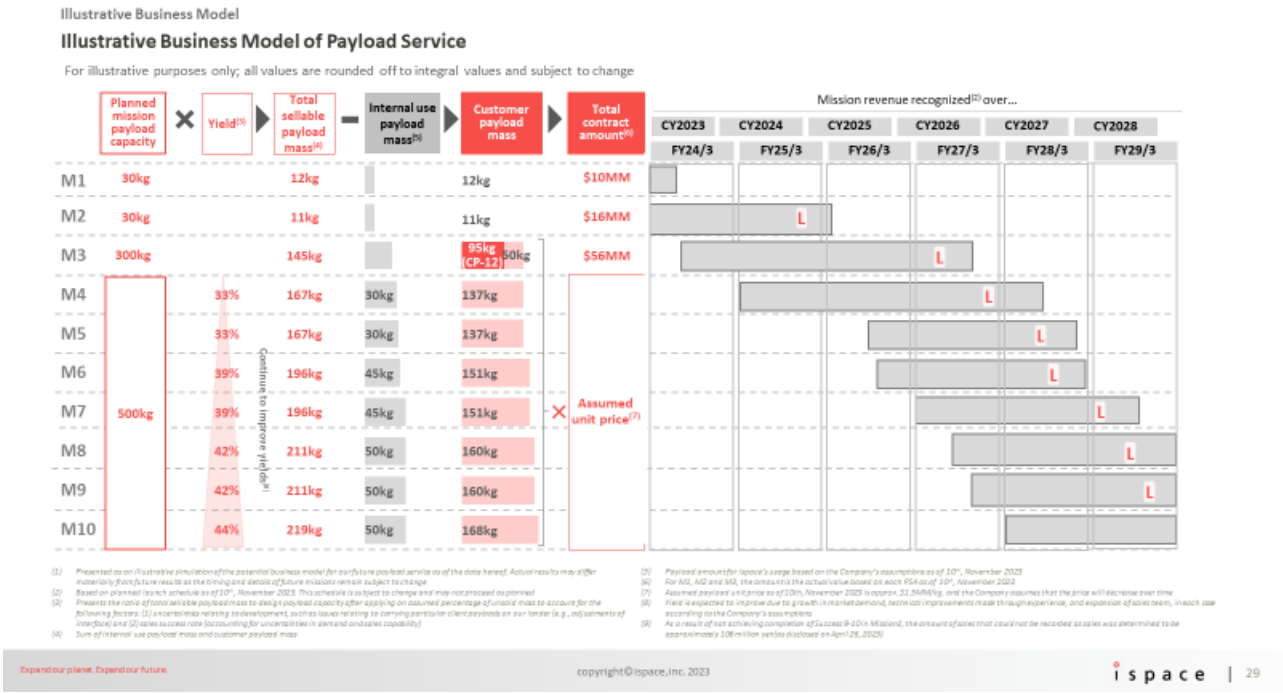


Jumpei Nozaki: This page shows continuous quarterly disclosure of KPI progress. Each mission has KPIs for sales and development respectively; contract amount for sales, and PDR and CDR milestones for development.

In Mission2, contract amount is 16 million USD. Already CDR has been completed and currently the AIT of the lander is in progress. For more details ofMission2, as CEO Hakamada mentioned earlier, we are having a press conference on November 16th, at 10:00 am in Japan Standard Time. We are pleased to share more details there.

As for Mission3, in terms of development, previously we have announced that a completion of the CDR is planned to be within this fiscal year. After further consideration, we have revised our plan, and now a completion of the CDR has rescheduled to the next fiscal year. Please note, however, there is no change in the timing of mission launch from the previous disclosure; the launch is scheduled to be in 2026 as of today.

Regarding the sales progress for Mission3, contract amount is approx. 56 million USD, which is slightly increased from the previously disclosed figure. We recognize strong demand of payloads delivery to the Moon from both private and government sectors. We plan to continue to increase the contract amount by making approx. 28 million USD of interim PSA contracts and other MOUs into final contracts. The interim PSA amount has slightly decreased from the previously disclosed figure; however this is due to our customers' status change and big picture of demand trend has not changed.



Jumpei Nozaki: This page also shows continuous quarterly disclosure of the image model, how our sales consist of, from the bottom-up approach. Please note, although the page includes some future mission information and mass descriptions, these are just a simulated image as of today.

The point to note here is that the designed payload capacity, which is how much we can transport our customers' payload, of the Series I lander used in Mission2 is a maximum of 30 kg, while the designed payload capacity of the APEX 1.0 lander used in Mission3 is 300kg, making it possible to carry more customers' payload. As a result, we believe that we will be able to make a significant increase in sales by Mission3.

The two red boxes are numbers specifically related to sales. For Mission2, we plan to sell 11 kg of payload, and the expected total contract amount is approx. 16 million USD.

For Mission3, as previously mentioned, the total contract value is approx. 56 million USD, including the 95kg order from the NASA CLPS program and the order from the US private company RHEA SPACE ACIVITY. In the future, we would like to increase sales by selling the remaining capacity of roughly 50 kg.

The gray bar on the chart on the right shows the total contract amount. Looking at the bars horizontally, the total contract amount per mission is divided and recorded as sales over multiple fiscal years. Then, if you look at this on the vertical axis for each fiscal year, sales from multiple missions will be accumulated and recorded. This is the basic structure of our sales model. I hope you can see that ispace's future growth story from next year onwards is to increase sales through Mission4, Mission5, and Mission6 that utilizes the SBIR program.

Jumpei Nozaki: Lastly, I would like to introduce our booth at IAC, a global space conference held in Azerbaijan last month. In front of the actual size lander design, management team and I gave a presentation about our business model, and I feel that we received an strong attention and support. No exaggeration to say that it was the largest ever.

“Never Quit the Lunar Quest”, we will continue to move forward in this spirit. To achieve this, the support of many investors, analysts, and the media is essential. Thank you for your continued support, and this concludes our session today.

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