Neural Pocket Inc.

FY2022 Q1 Financial Results Briefing Meeting

May 16, 2022

Presentation

Moderator: It is time to begin. Thank you all for taking time out of your busy schedules today to participate in the quarterly financial results briefing session for 1Q of the fiscal year ending December 2022 of Neural Pocket Inc.

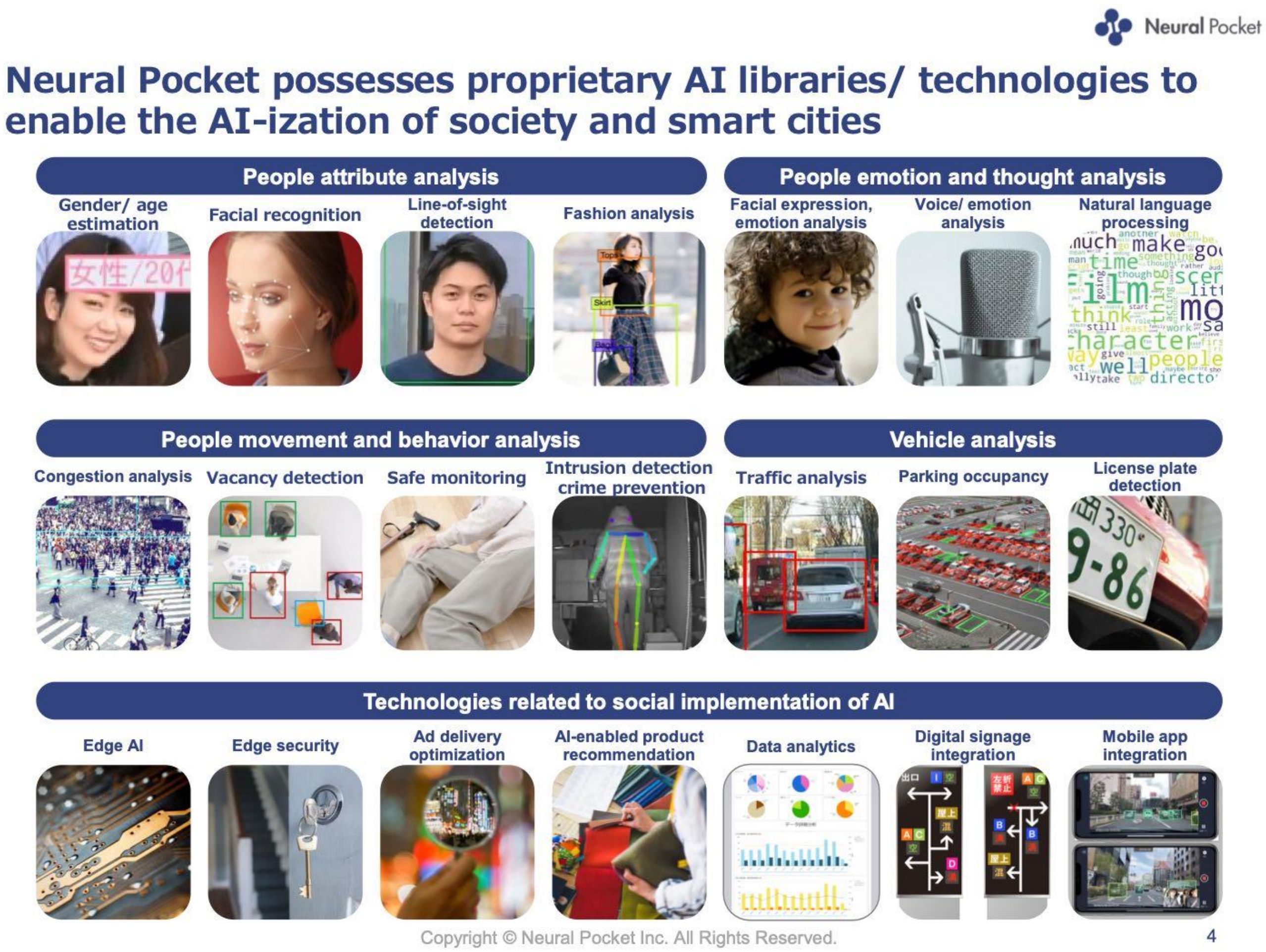
Today's presentation will be based on the financial results presentation material disclosed on our IR website on May 13.

Let me explain today's process. Mr. Shigematsu, Representative Director, will give a 30-minute presentation on business overview and performance. There will then be a question-and-answer session until 1:00 PM maximum. Questions will be answered by both Mr. Shigematsu, Chief Executive Officer and Mr. Tane, Director, Chief Financial Officer.

Thank you for your patience. Mr. Shigematsu, Representative Director, will provide an overview of our business and financial results. Well then, Representative Director, please start.

Shigematsu: Thank you all for taking time out of your busy schedules to join us today.

In terms of business conditions, I believe that momentum has returned to the AI industry. Our company's business performance has been improving, and I think we are now at a stage where we can feel the growth of our company. I have already included most of the information in the financial statements, but I would like to explain some of the supplementary information.



I would like to start by explaining the progress of our technology, which I feel is almost complete. I believe that the time has come for us to consider expanding our business both in Japan and overseas, and we are now ready to provide AI services in Japan and around the world.

In terms of technological expansion, we have expanded from our main strength of analyzing people's attributes to include emotional analysis, thoughts, and the right side of the spectrum, which of course includes photographic images as well as voice and text. We have been doing this for a long time, but we have also seen a considerable increase in stable operations, and I think we are now at a level where we can compete on a global level in the industry.

As for vehicles, the number of vehicles, especially parking, that have been installed has increased considerably, and I believe that we are now ready to introduce AI technology into road infrastructure.

The lower part of this section is technology related to the social implementation of AI. As an AI company, this is the most important point, but the fact is that AI will not work even if we only build the AI engine above. Also, edge technologies, and security in expanding sales of edge devices, which is very important, have been enhanced in terms of security that enables each individual device to respond to cyber-attacks, physical attacks, and all other types of attacks.

The rest is what we call optimization AI. Optimization includes ad serving, which is what we are aiming for, a kind of recommendation engine, and analytics, which is an area called AI for optimization, and I think we have made a lot of progress in this area as a live service. Then there is the linkage between AI and signage, and AI and apps. I believe that this series of expansion is now in place.

In this context, we have just begun our fifth year in business, and I think we have finally put our vision into action. I have been saying that AI companies all over the world are thinking about what AI companies can contribute to society, and I think we have finally come up with a solution.

I think there are actually two things that we will use AI for. The left side says, “eliminating waiting time.” The first major theme is to turn the time spent waiting and other non-value-added time into time for enjoyment and peace of mind through data analysis using AI technology. This is not only a theme for Japan, but for the entire world.

For example, the time spent waiting for parking, as shown on the left side, can be used for consumption, or the time spent waiting for parking, as shown in the middle, can be used to go out safely based on self-restraint, people flow counting and crime prevention security, etc. In short, you can go out quickly and enjoyably and consume.

Then there's the digital road due to the flow of the road. For example, we are now looking into the possibility of linking with self-driving cars and inter-vehicle communication by providing such AI functions on the road infrastructure side, as well as in parking lots.

Then there is the so-called food and beverage area in the lower left corner. You can see the availability of such things. About the intrusion and other anomalies. It says, rescue without waiting, but the time spent waiting is not only the time spent waiting for traffic jams, but also the time spent waiting for help to arrive immediately, for immediate evacuation due to disaster prevention, etc. These are actually important waiting times. The rest is commuting, and by working from home, we write it off as commuting from home, but we call it, “eliminating waiting time,” in the overall sense of using such commuting time for work time, family time, and personal time.

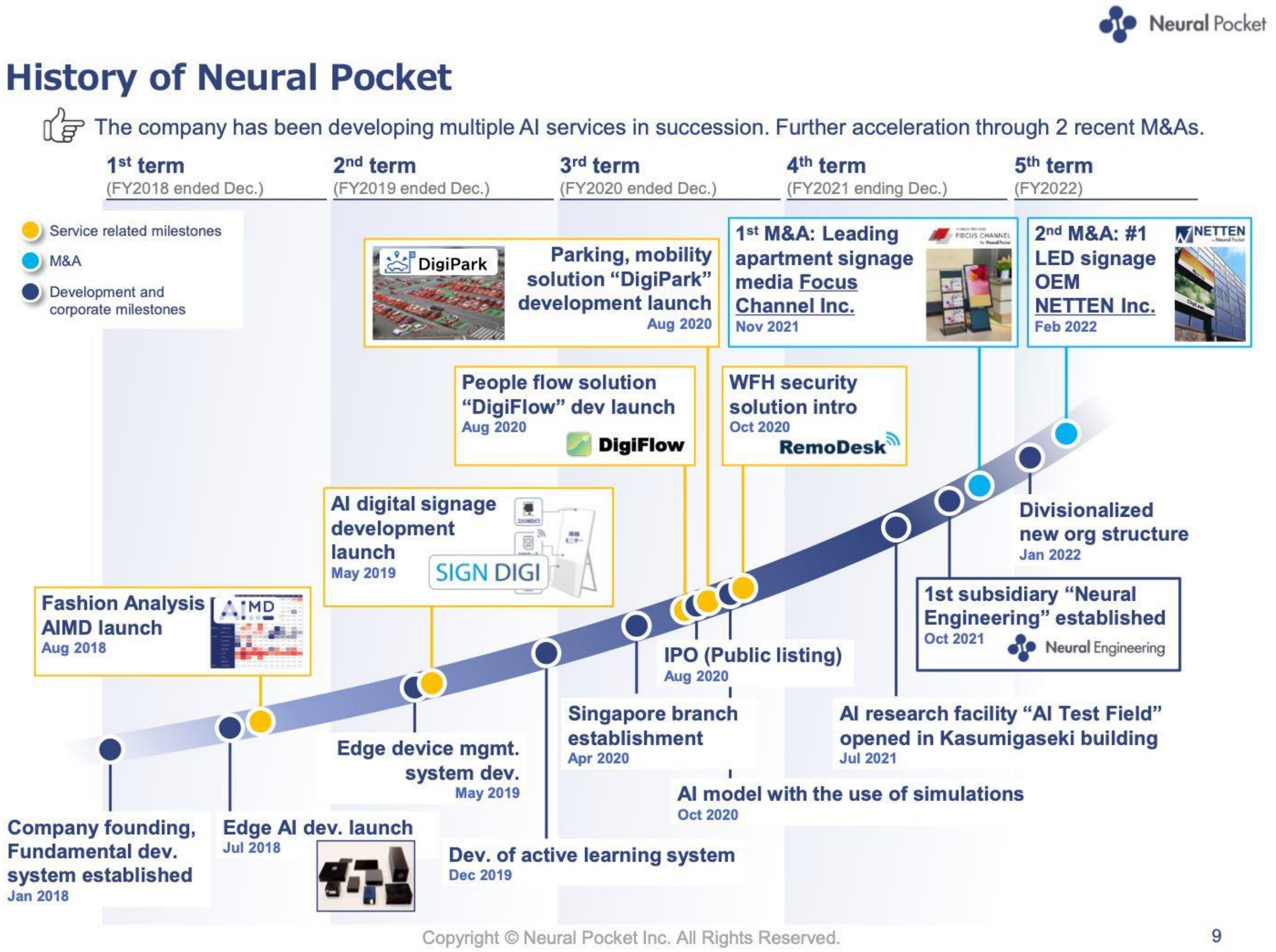
The second major theme on the right is a town where you can encounter information. This is a very important pillar of our vision. AI technology, when looked at globally, is generally used for analysis, but there have been few smart cities that have been able to transmit this information in a push-button manner and provide it as value-added information to consumers.

Recently, we have been actively investing in companies that have this kind of signage and screens, but why we are doing is, as shown on the left side, when we connect what is analyzed by AI with actual changes in social behavior, we deliver it in an optimal way as information closely related to the community and individuals. This means AI of optimization but delivering it optimally. And we are about to implement viewer analysis and delivery automation with AI. The digitization of information in society is in fact an integral part of AI.

For example, in the Focus Channel section above, we have written about creating new lifestyles in living spaces, and we are currently doing this in some condominiums and office buildings. We are also looking for ways to bring new regional information, local information, new fun and games, and local specialties to your condominium. That leads to consumption. It would connect it to this kind of new lifestyle. In addition, as we have just acquired NETTEN, I believe that it is essential to work with AI to transmit the joys of the community through outdoor vision.

Also, as you can see in the bottom row, we have been doing this for a long time, but we have to provide reliable information to the evacuees. As a smart city operator, we are working with local governments across the country, and we are trying to reduce the time people spend waiting for evacuation, or in other words, to quickly evacuate the area. We would disseminate necessary evacuation information there. We could see these series of connections.

It says in the middle that this is a society where data circulates. We believe that a smart city is a series of information analyzed by AI, information optimized and transmitted on the screen, and information viewed by the viewers circulates in society.

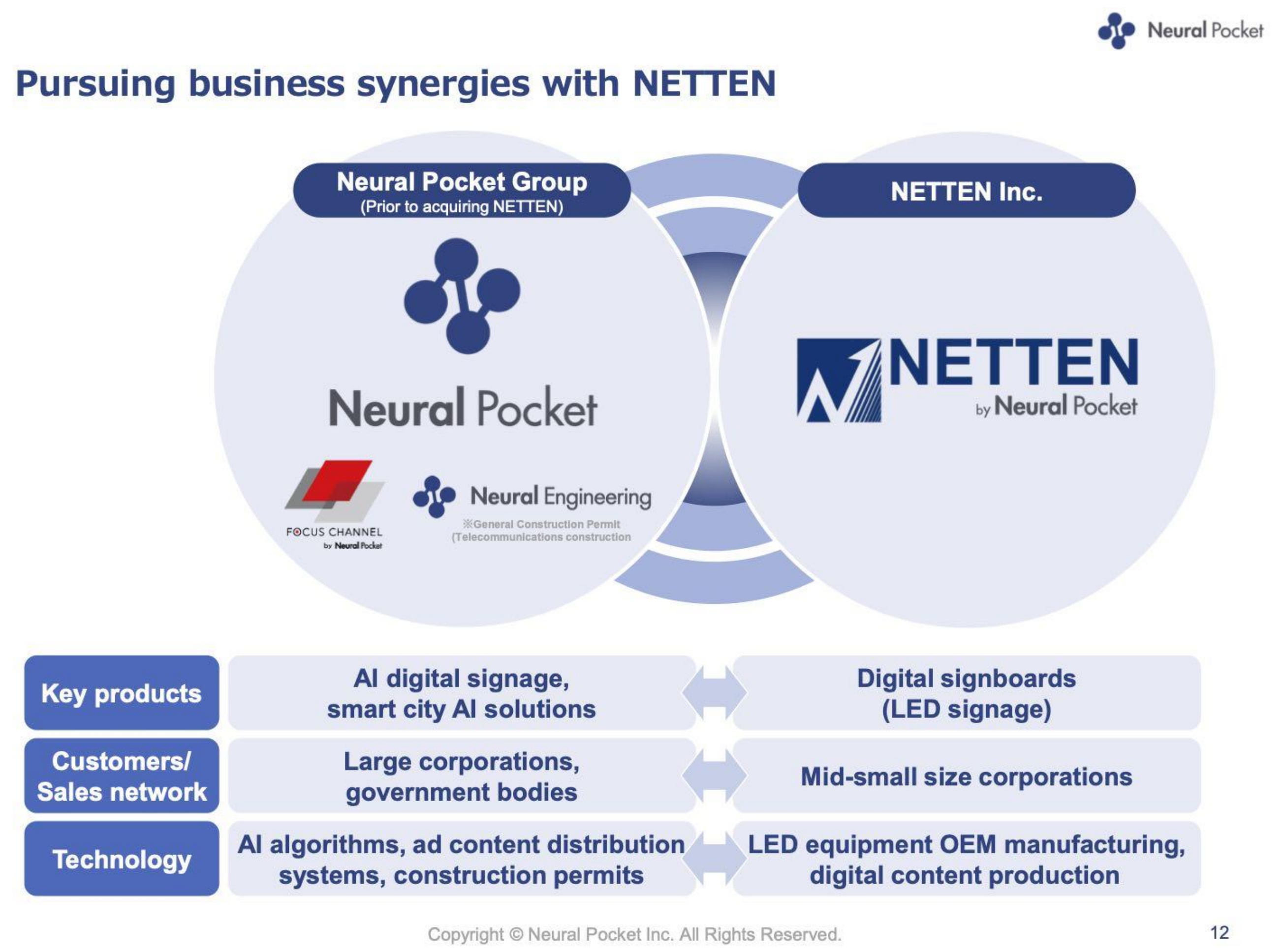


Page nine will be the Company's history to date.

In the area related to the current financial results, we have just acquired NETTEN, a fabless LED signage company. This has already been announced previously in a timely disclosure, but this company is now 7,000 companies, which I will discuss on the next page.

These outdoor billboards have been partially connected to the Internet but have not yet been equipped with any AI. I believe this is one of the best examples of how we are expanding sales of such non-AI assets.

We have 10 locations nationwide now, and we have installed at 10,000 locations so far, which is 10,000 locations for 7,000 companies. By possessing these assets, I believe we have completed the AI smart city that we have been aiming for.

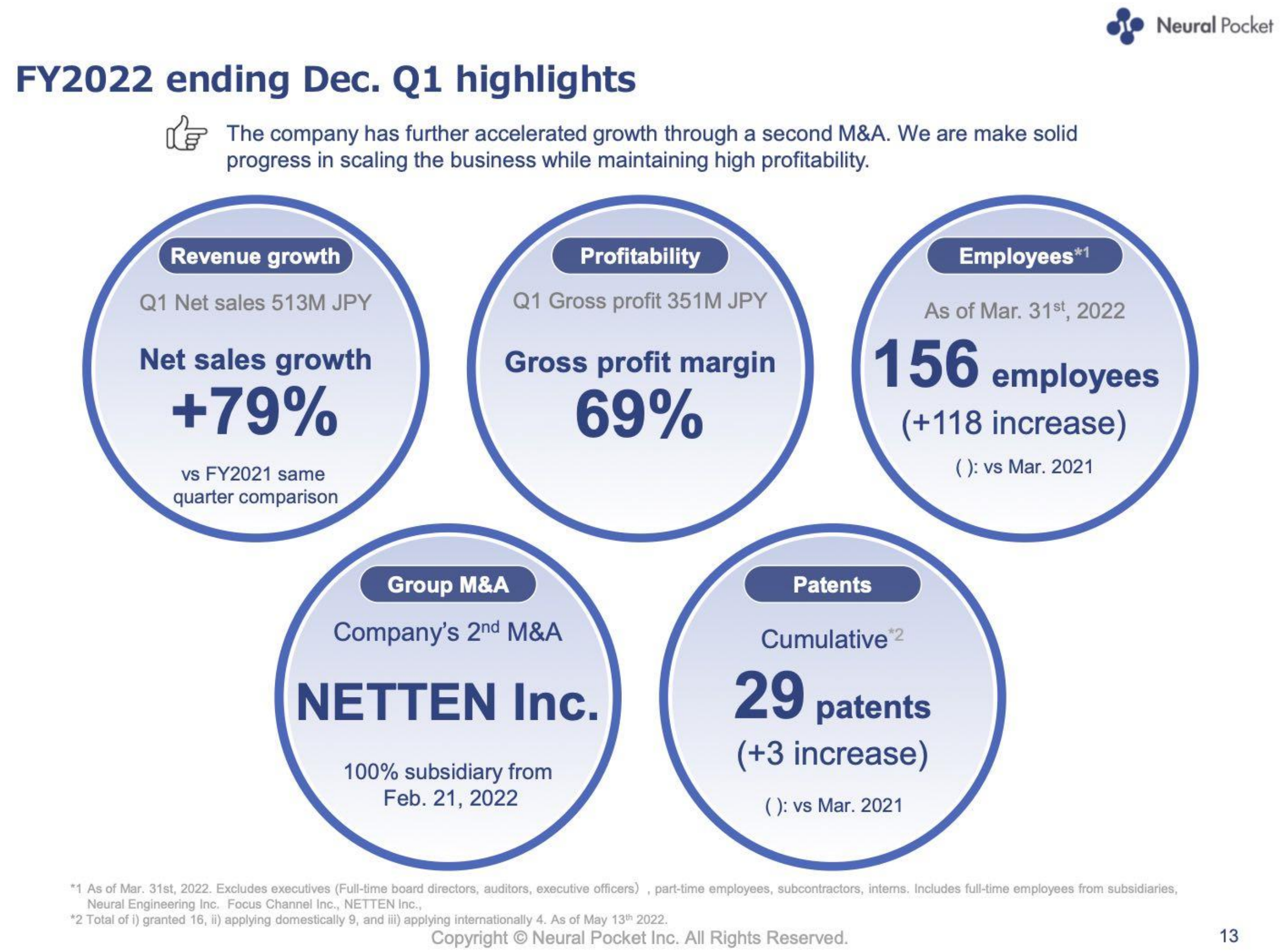


Here is a map of synergy and reinforcement relationships.

The Neural Pocket Group's main products have been AI, signage, and smart city solutions.

The main customers were large companies and public offices, the so-called central customers. The technologies are AI algorithms, ad delivery networks, which are CMSs for ad delivery, content management service systems, the optimization AI that optimizes delivery. Then there is the construction law and permits that Neural Engineering has, which will allow them to receive orders for AI systems in smart cities. We are now able to receive work from the national, public, and municipal governments, but it involves a series of skills and capabilities such as these. In contrast, NETTEN has what is called LED signage, which is signage that can be handled outdoors that is not LCD. And, as for customers, this is where there has been a long tail of mainly small and medium-sized companies.

The technology is a fabless design technology for LEDs. Basically, they are a fabless company that does not have their own factories, etc., but we have also developed content production and other such services. I think this is indispensable for AI solutions. I believe that the strengths of each of these companies, in other words, have created synergies in areas where there has been little overlap between them, and I believe that this is essential for AI solutions.



Here are the first quarter financial highlights.

The total amount was JPY513 million, up 79% YoY. Regarding gross profit, we are going to focus on gross profit margin from now on, but the gross profit of JPY351 million was generated.

FY2022 ending Dec. revised consolidated financial forecast

Neural Pocket

Revised earnings forecast in light of NETTEN becoming a wholly owned subsidiary and the expected synergies to be generated in the short term with our AI services. Profit forecasts are unchanged, as the company plans to continue to make investments for future growth.

(million JPY)	FY2021 ended Dec. results	FY2022 ending Dec. previous forecast	FY2022 ending Dec. latest forecast	Increase Value	Increase Percentage
Net sales	1,010	1,800	3,200	+1,400	+77.8%
Gross profit	787	1,200	2,100	+900	+75.0%
% of net sales	78.0%	66.7%	65.6%		
EBITDA	112	250	350	+100	+40.0%
% of net sales	11.1%	13.9%	10.9%		
Operating profit	20	20	20	-	-
% of net sales	2.0%	1.1%	0.6%		
Net income	11	2	2	-	-
% of net sales	1.1%	0.1%	0.1%		

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We have revised our business results by comprehensively considering NETTEN's participation in the Group and the progress of each of our businesses in 1Q.

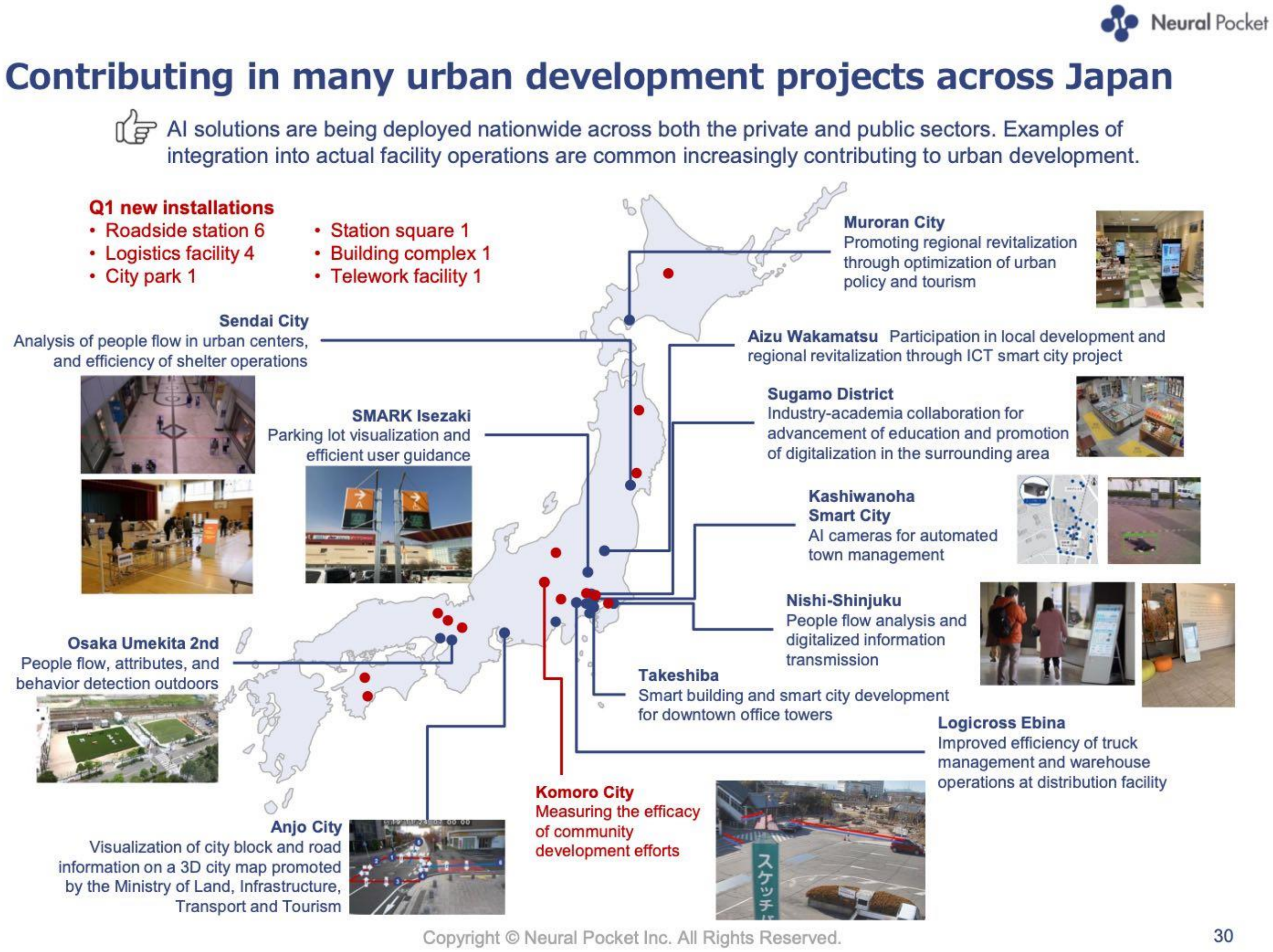
We had previously forecasted sales of JPY1.8 billion, but we are now forecasting JPY3.2 billion, an increase of JPY1.4 billion. Gross profit margins are largely unchanged. The forecast was for 66.7%, but it came in at 65.6%. The gross margin has decreased slightly by about 1%, but it has remained almost unchanged, maintaining a high gross margin.

Basically, we are using all of the operating income that we have generated for the current fiscal year. As a business with low volatility in expenses and low variable costs in general, the sensitivities to increase earnings in response to sales growth are very high.

From the next fiscal year onward, we would like to anticipate an increase in organic revenues, a portion of which we have not included so far.

As for the market outlook for the fiscal year under review, I think the market will steadily increase. In addition to this increasing portion, we would like to conduct more aggressive M&A activities, and when new companies join the Group, we would like to disclose the results of these activities.

With respect to each business, the information is as disclosed in the financial statements. Now, let me explain a little about this.

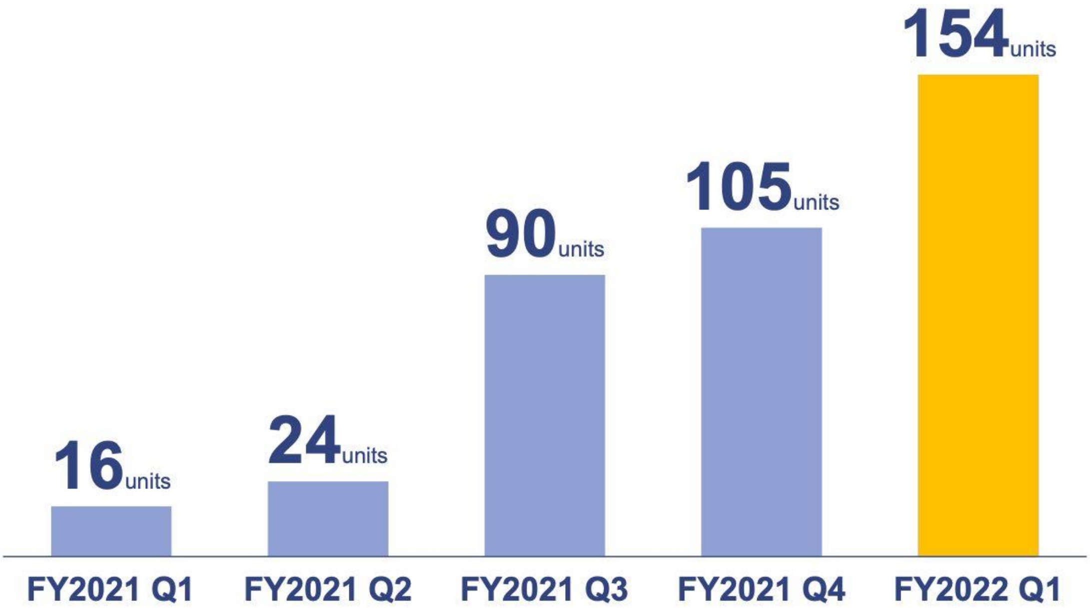


As I mentioned earlier, in the progress of the Digi-Solution division's largest business, the smart city business is now being introduced in Japan. Until now, our main focus has been on aggressive sales activities, but many companies have already introduced the system, and we are receiving several inquiries a week about this area. We are planning to respond to these inquiries as much as we are able.

Neural Pocket

Cumulative number of units installed for Digi-Solution services

DigiPark and DigiFlow has seen steady expansion and achieved the target of 150 unit installations by the end of Q1.



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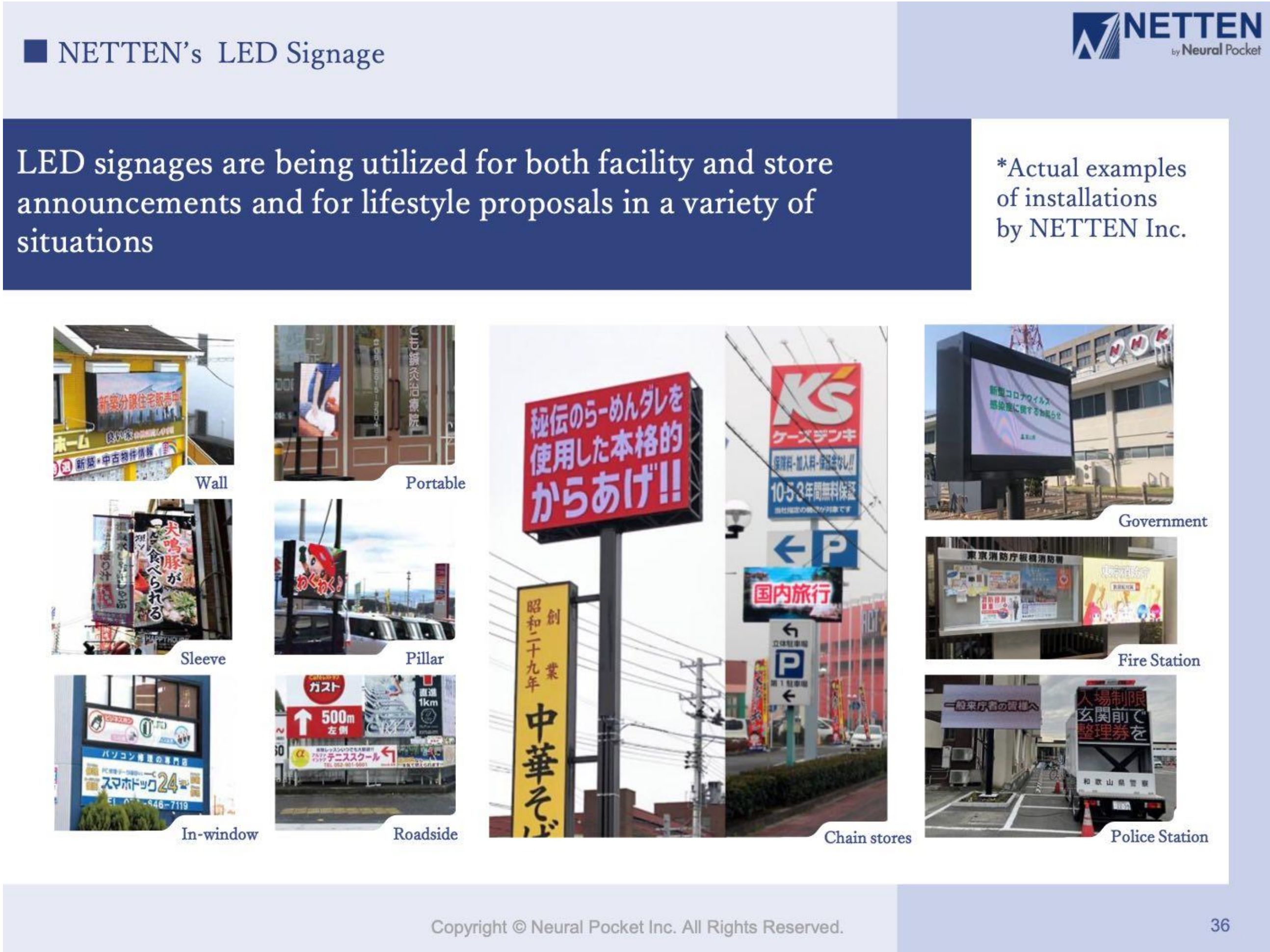
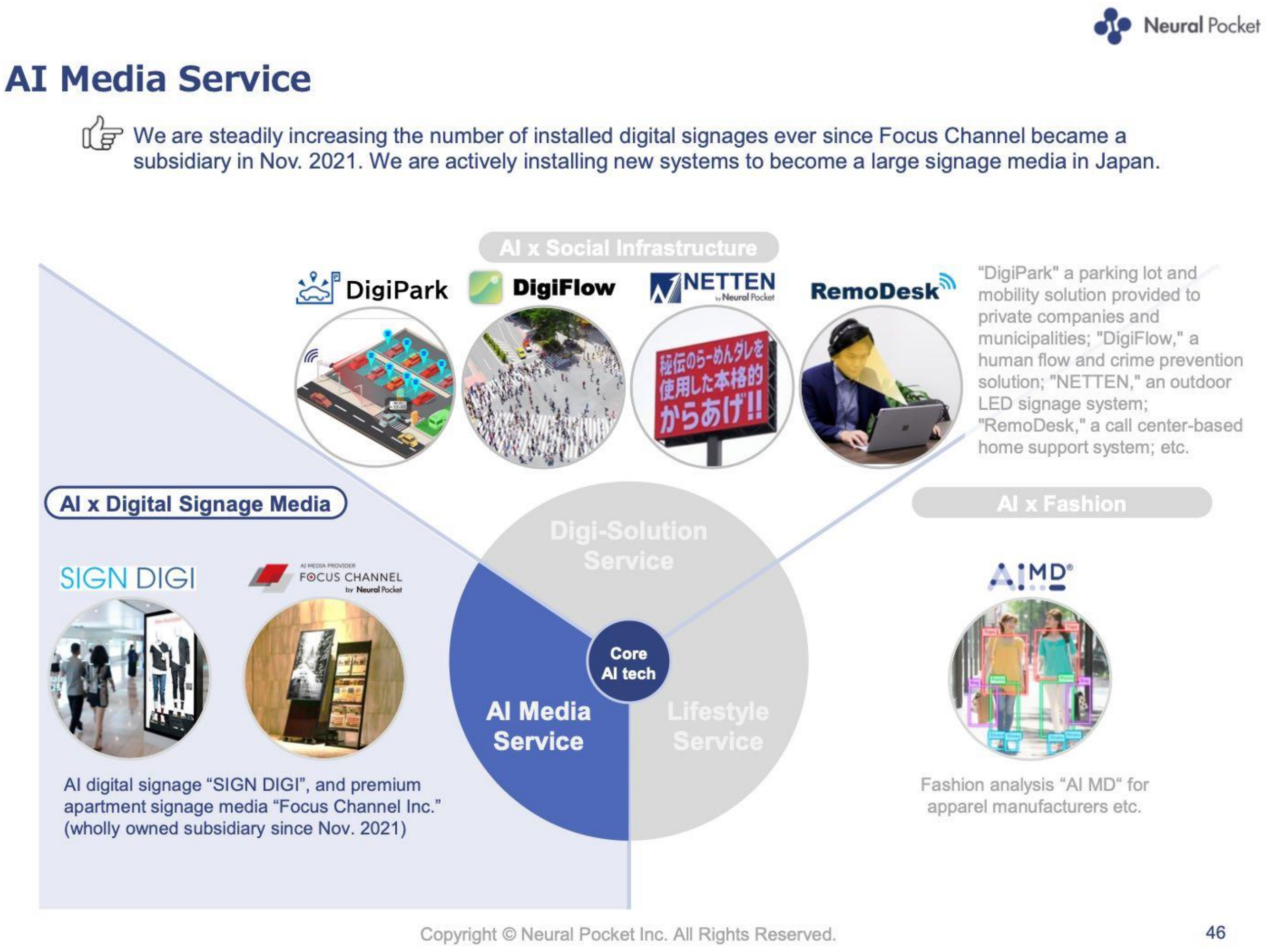
As for the number of solution service units, we have 154 units, and we are in the process of expanding the horizontal development I mentioned earlier.



NETTEN.

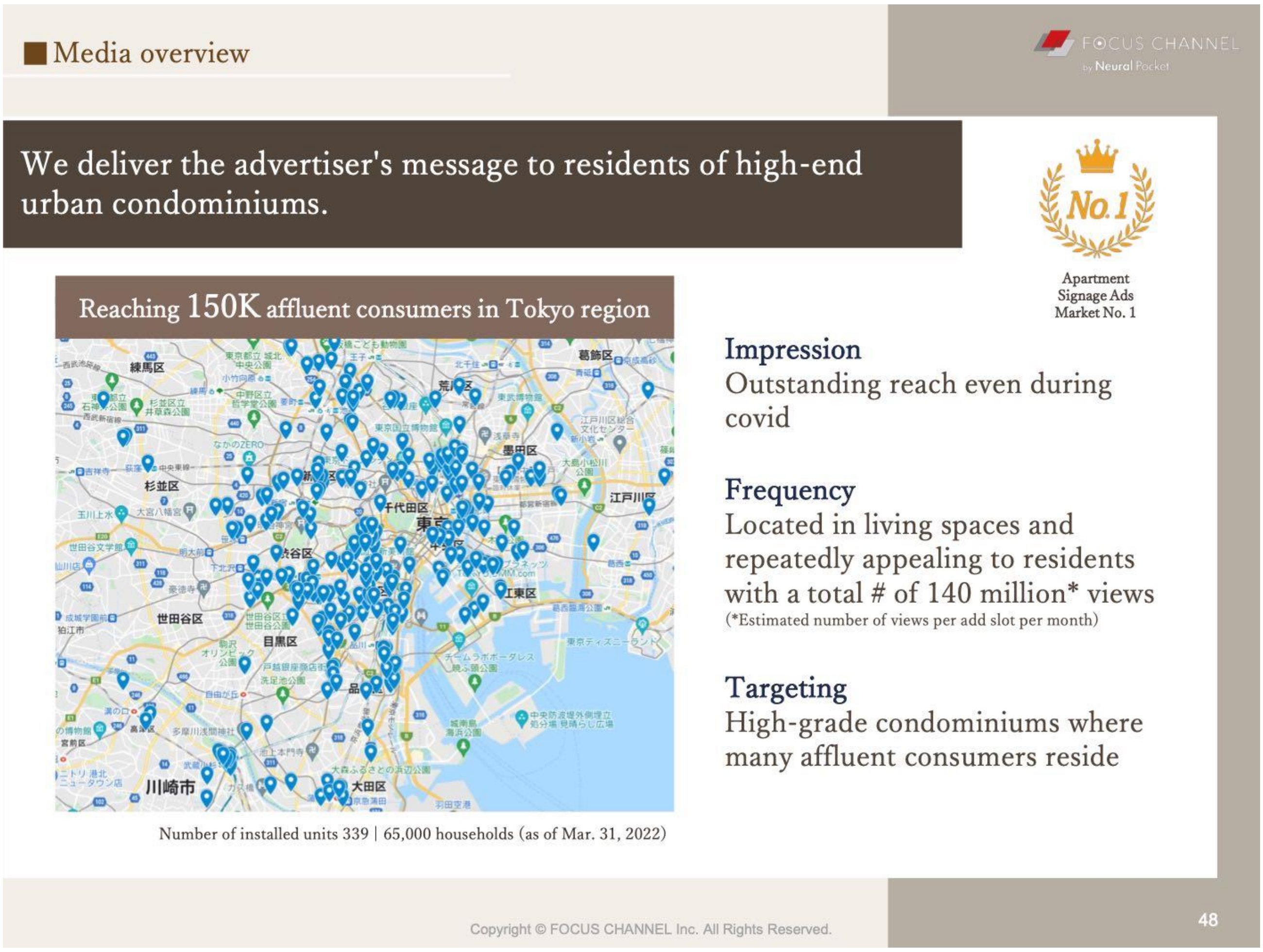
What is interesting about this kind of outdoor LED vision is that it has been installed in a variety of places, as I mentioned long tail earlier. The 10,000 installations were actually in many places, including chain stores in the middle, government offices on the right, and so-called private stores on the far left.

But what we don't have here is what is called LED vision in Manhattan, New York, where a large city is entirely covered by LED vision, which is not at all what we see in Japan. We consider this to be a huge white space, but in Japan, LED vision, and digitalization have not progressed at all in the city. We are now thinking of digitizing those areas, optimizing them with AI cameras and streaming content to them.



AI Media Services.

This is the Focus Channel, which uses an LCD vision system to display advertising content.



As you can see in the lower left-hand corner, 339 units have been installed as of the end of March, and the installation is in progress.

■Apartment list (1/2)
FOCUS CHANNEL
by Neural Pocket
ザ・東京タワーズ（シータワー）
ザ・東京タワーズ（ミッドタワー）
ザ・東京タワーズ（ミッドタワー賃貸棟）
勝どきザ・タワー
パークタワー晴海
ザ・晴海レジデンス
晴海テラス
カスタリア水天宮
カスタリア水天宮Ⅱ
カスタリア東日本橋
レジディア新川
KDXレジデンス日本橋水天宮
KDXレジデンス日本橋箱崎
KDX大伝馬レジデンス
We Will八丁堀
エスティメゾン銀座
ザ・パークハビオ日本橋箱崎町
プライムメゾン銀座イースト
レジディア銀座東
レジディア月島Ⅱ
レジディア三越前
レジディア日本橋馬喰町
芝浦アイランドケープタワー
グローバルフロントタワー
コスモポリス品川
パークコート赤坂ザ・タワー
カスタリア高輪
カスタリア芝公園
プラウドフラット白金高輪
カスタリア麻布十番七面坂
レジディア芝浦
レジディア六本木檜町公園
AQUACITY 芝浦
JUN HANABI
KDXレジデンス芝公園
KDXレジデンス西麻布
KDXレジデンス南麻布
KDXレジデンス麻布イースト
KDXレジデンス白金I
KDXレジデンス白金II
ＭＦＰＲコート赤坂見附
Wat's白金
アーバンパーク麻布十番
アーバンフラッツ芝浦（エスティメゾン芝浦）
アルブル高輪
エスティメゾン麻布永坂
クリオ三田ラ・モード
コンフォリア田町
セントラルクリブ六本木
セントラルクリブ六本木2
セントラルクリブ六本木3
ディームス麻布狸穴町（パークハビオ麻布狸穴町）
パークアクシス西麻布ステージ
パークアクシス赤坂見附
パークアクシス麻布仙台坂
パークハビオ赤坂タワー
プライムメゾン白金高輪
ホワイトタワー浜松町
レキシントンスクエア白金高輪
レジディアタワー乃木坂
レジディアタワー麻布十番
レジディア虎ノ門
レジディア西麻布
レジデンス白金コローレ
レジデンス白金パークフロント
赤坂氷川町レジデンス
六本木エムケイアートレジデンス
シティカレント南青山
パークキューブ東品川
カスタリアタワー品川シーサイド
カスタリア目黒かむろ坂
カスタリア戸越
カスタリア中延
プラウドフラット戸越公園
レジディアタワー目黒不動前
レジディア南品川Ⅱ
KDXレジデンス戸越
KDXレジデンス品川シーサイド
エスティメゾン大井仙台坂
エスティメゾン品川シーサイドⅠ
エスティメゾン品川シーサイドⅡ
エスティメゾン品川シーサイドⅢ
エスティメゾン東品川
オアーゼ品川レジデンス
コンフォリア目黒長者丸
ザ・パークハビオ品川戸越
プライムメゾン白金台タワー
ベルファース目黒
ルーブル目黒不動前
レジディア島津山
レジディア東品川
品川シーサイドレジデンス
ＭＦＰＲ目黒タワー
レジディア目黒Ⅳ
コンフォリア渋谷WEST
カスタリア中目黒
プライムアーバン目黒大橋ヒルズ
CONTRAL nakameguro / コントラル中目黒
KDXレジデンス自由が丘
ザ・パークハビオ目黒
レジディアタワー中目黒
レジディア祐天寺
ブリリア有明スカイタワー
ザ・豊洲タワー
シティタワー有明
オリゾンマーレ
ビーコンタワーレジデンス
キャナルファーストタワー
ロイヤルパークス豊洲
クレヴィアリグゼ門前仲町
レジディア亀戸
レジディア大島
レジディア木場
コンフォリア森下リバーサイド
キャナルスクエア豊洲
KDXレジデンス豊洲
ＭＦＰＲコート木場公園
ＵＵＲコート錦糸町
アーデン清澄白河
エコロジー東陽町プロセンチュリー
エスティメゾン大島
コスモザ・キャナル東京イースト
コンフォリア亀戸サウス
コンフォリア豊洲
パークハビオ門前仲町
クイズ恵比寿
カスタリア初台
レジディア笹塚Ⅱ
KDXレジデンス幡ヶ谷
代官山タワー
Ｄクラウディアイヴァン初台
KDXレジデンス恵比寿
KDXレジデンス西原
KDX代官山レジデンス
ＭＦＰＲ代々木タワー
エスティメゾン笹塚
コンフォリア原宿
コンフォリア笹塚
コンフォリア北参道
パークアクシス代官山
パークハビオ恵比寿
パークハビオ渋谷本町レジデンス
フォレシティ富ヶ谷
プライムメゾン恵比寿
プライムメゾン渋谷
レジディア恵比寿Ⅱ
レジディア広尾Ⅱ
レジディア御茶ノ水Ⅲ
BelleVue千代田飯田橋
CITY CURRENT大手町
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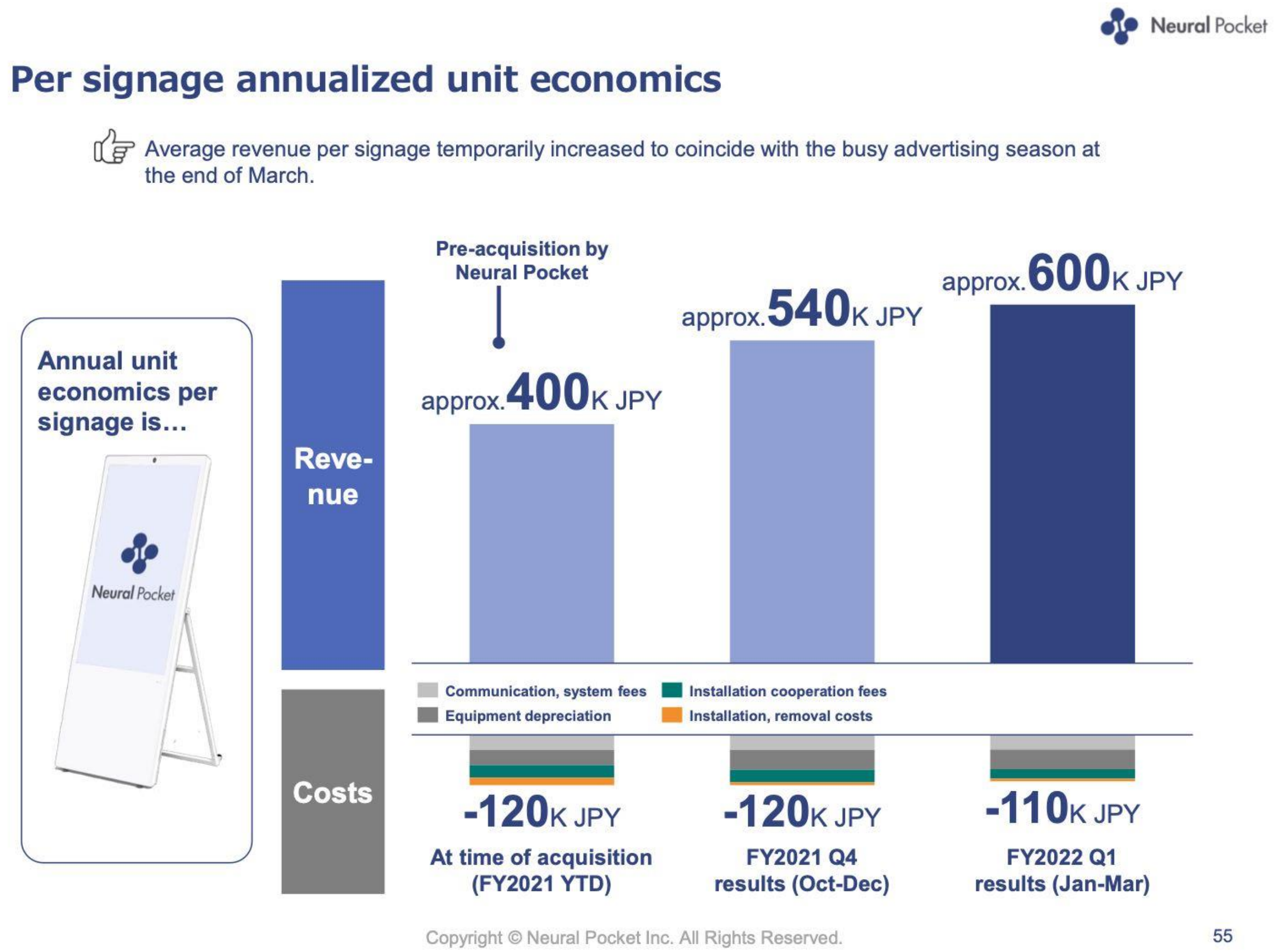
Here is the list on page 49 and 50.

I think it has increased a lot. The so-called iconic condominiums are increasingly being introduced, and the reason for this is that the level of satisfaction of the residents is increasing.

This kind of local information is actually half advertising. In fact, advertisements that do not provide local information are not viewed, and customer satisfaction is high as more and more advertisements are submitted that offer new lifestyle suggestions that residents want to see, and this type of introduction is increasing. The number of installations here is as I mentioned earlier.



The unit price per unit is now JPY600,000, but it is temporarily higher in 3Q, January, February, and March of this year because of the timing of year-end budget cuts by large companies. I think it will level out a bit more, but I think we should generally maintain this area of the middle of several hundreds of thousands from now on.

We have noticed that at this very moment, assets are coming rather close to digital signage wind-speed wise. This has been our theme for the past six months, and the reason why is purely because it is growing and is essential to our AI technology, and the market continues to grow.

However, compared to cities such as Shanghai and Shenzhen in China and New York in the US, Japan is by far the slowest in the progress of digital signage.

There will be no change in the medium-term leap forward, as I have already told you.

The M&A strategy will remain the same. We are promoting the project with the goal of achieving sales of JPY4 billion this fiscal year. We are hoping to achieve annual differential sales of about JPY6 to JPY7 billion this year on a year-end run-rate basis, which would make it easier to see next year's JPY11 billion.

The remaining has now been revised to JPY3.2 billion, but we would like to consider the implementation of the remaining JPY0.8 billion while monitoring the situation. That is all.

Question & Answer

Moderator[M]: We will now move on to the Q&A session, with Mr. Shigematsu, Chief Executive Officer, and Mr. Tane, Director, Chief Financial Officer.

Now, Mr. Kobayashi of Mizuho Securities.

Kobayashi [Q]: Thank you for the opportunity to ask questions. My name is Kobayashi from Mizuho Securities. I would like to ask two major questions. The first point is about NETTEN. First, I would like to ask about the progress on PMI. I would like to ask you about the education of your employees who will understand your technology and propose solutions, and how you plan to achieve these results.

Shigematsu [A]: Alright. PMI has already been working on a 100-day plan, and the 100th day will soon be over, and the conclusion is that we are doing extremely well.

I was surprised at how much partnerships exist. NETTEN has mainly sold long-tail signage, but we have not made any system proposals to the head office and in fact, we have been refusing to offer any system proposals. In the past, for better or worse, our company's strength has been the centralized leadership of the head office, but now we are seeing short-term synergies being generated.

In addition, we are now working on introducing AI and converting the content system to AI, and the technological integration is going very smoothly. Our edge devices are already working in conjunction with this LED vision system, and the conversion of NETTEN's LED vision system to AI has been completed.

We are in the process of starting to sell more and more of these products.

Kobayashi [Q]: I understand. Thank you very much. On another point, I'd like to understand the mix-up in the upward revision of the full-year plan. I think the amount is JPY3.2 billion from the original JPY1.8 billion, and JPY1.4 billion will be raised as a subtraction. Is this simply the portion of NETTEN that was acquired, or are the synergies between NETTEN and your company taken into account to some extent? I would appreciate it if you could give me a little more detail about the mix-up. Thank you.

Shigematsu [A]: Alright. As for this year, there is actually a lot of mix-up.

The NETTEN part is more of a so-called long-tail LED sales business, which is a wonderful business, and we are not thinking of making any major changes to it, but we have a lot of resources within NETTEN that we will use for AI signage sales and development. We are also putting people in charge of AI signage sales and development.

Conversely, we are now selling our Digi-Solutions with NETTEN panels attached, and the boundary between the two is rapidly disappearing.

So, as far as the budget is concerned, we have reconfigured it once. As a result, it looks like we added JPY1.4 billion, but as for the content of that, I think it has changed. I can't give you the details of how many million for which are, but we are looking at JPY1.4 billion for the fiscal year under review, and from next year onward, these will be combined and sold as a larger AI system, and we are currently revising our business results. I'm sorry, I can't give you all the details of the segment information and what it is, but we are working on a projection of JPY1.4 billion with a mixture of various things.

Kobayashi [M]: Yes, sir. Thank you very much. That's all from me.

Moderator [M]: Thank you very much. Does anyone have any other questions? Now, there being no further questions, I will conclude the question-and-answer session.

Thank you for participating in today's financial results briefing session for 1Q of fiscal year ending December 31, 2022, of Neural Pocket. I would like to adjourn the meeting.

[END]

Document Notes

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*