Neural Pocket Inc.

Financial Result Briefing Meeting, FY-ended 2020.12

February 15, 2021

Event Summary

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[Participants]		
[Number of Speakers]	2	
	Roi Shigematsu	Chief Executive Officer
	Ryosuke Tane	Chief Financial Officer
[Analyst Names]*	Yusuke Hori	Mizuho Securities Co., Ltd.
	Ryo Kobayashi	Mizuho Securities Co., Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

Moderator: It's time to start.

Ladies and gentlemen, thank you for joining us in the full-year financial results briefing for the fiscal year ended December 2020 of Neural Pocket Inc.

I will be your moderator today. Thanks.

The presentation will be based on the materials disclosed on our Investors website on February 12. These materials will be shared on your Zoom screens. If you are joining by phone, please visit our Investors website to see the materials. Recording the video or audio of this briefing is prohibited.

The following is today's agenda. First, Chief Executive Officer Shigematsu will give an overview of the business and financial results for around 30 minutes. After that, we will have time for a Q&A session until 1:30 PM, at the latest. Both CEO Shigematsu and CFO Tane will answer your questions.

Today, we are using Zoom's video conferencing system. Please indicate your name and affiliation for the account name because we will be using it when selecting the questioner during the Q&A session.

Only those who speak in the Q&A session will have their account names and profile images shares with the other participants. Please make the changes to your settings in advance, if necessary.

Thank you for your patience. I will now turn over the conference to CEO Shigematsu for the business overview and financial results.

Shigematsu: Thank you for joining us today despite your busy schedules. This is Shigematsu of Neural Pocket. This is the first full-year financial results announcement since the public listing of Neural Pocket. I would like to make this an opportunity to share you the financial result details, some of the technological and business advancements we've made, and improvements in our business model.

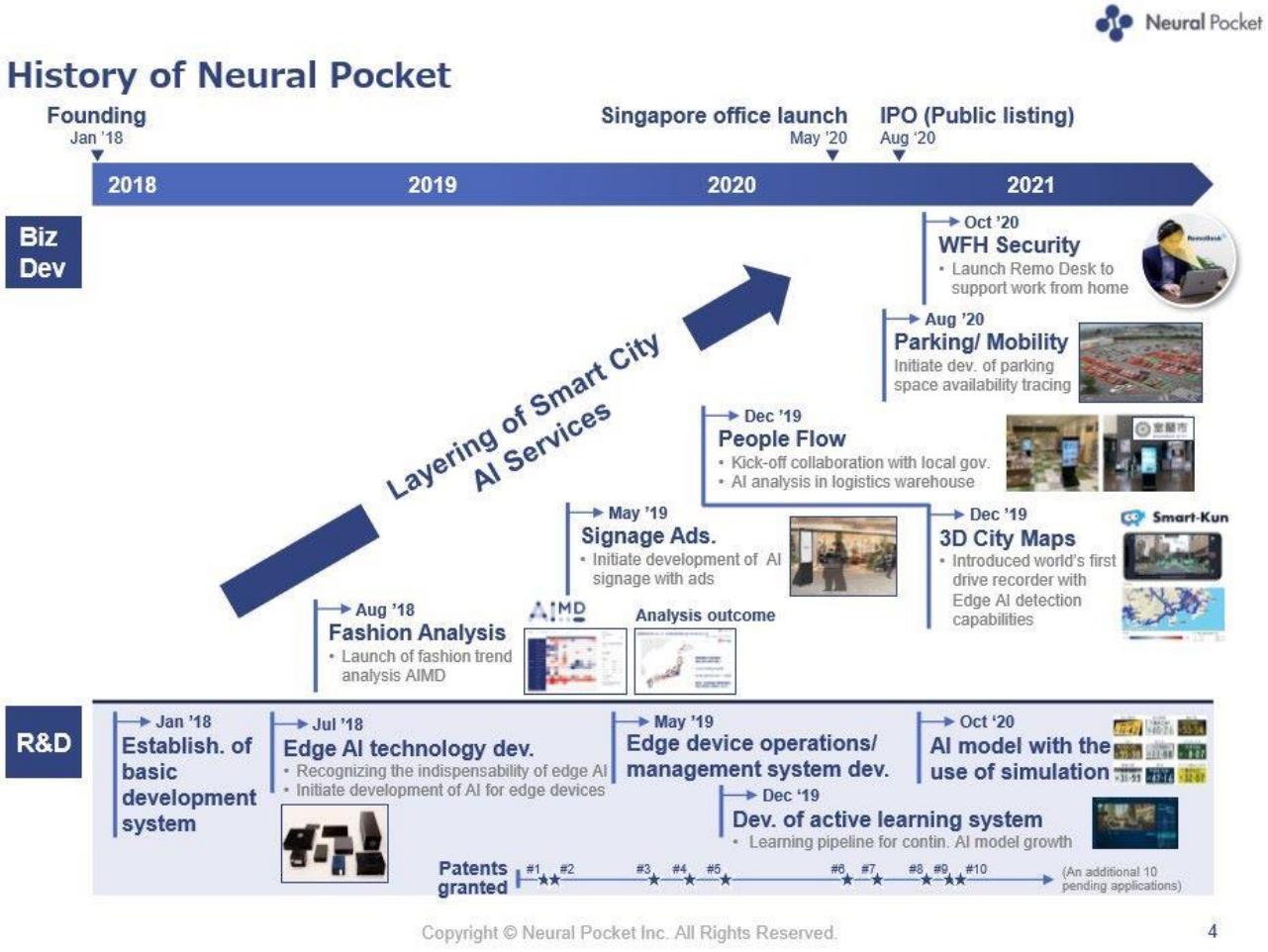
I'd like to explain using the presentation materials. I'll start by giving an overview of the business, because some of you are participating for the first time. After that, I will explain the full-year FY2020 performance, followed by highlights and progress updates on the businesses underpinning the results. Lastly, I will briefly go over the full-year financial results forecast for the current fiscal year that is already underway.

Neural Pocket

Company information

Company	Neural Pocket Inc.
Established	January 22, 2018
Location	Headquarters Tokyo Midtown Hibiya, Hibiya Mitsui Tower 32F, 1-1-2, Yurakucho, Chiyoda-ku, Tokyo, Japan Singapore branch 9 Straits View, Marina One West Tower, #06-07, Singapore 018937
Representative	Roi Shigematsu
Employees	38 (as of Dec 2020 end)
Capital	18.5 million JPY (as of Dec 2020 end)

Here is an overview of the Company. Neural Pocket was established on January 22, 2018, and we currently have two offices, one in Tokyo and the other in Singapore. We have 38 employees, which is an increase of 13 from 25 in the same period last year, indicating that we have added new personnel over the last year. The paid-in capital is JPY18.5 million.



We received many questions about Neural Pocket's history, so we've created a slide with our history. Looking back, I think the past three years where a period in which we developed our smart city AI services, which we are promoting.

I'd like to go over the history in chronological order. First, regarding our business development on the top, we started out in 2018 as a fashion analysis company at the time of establishment.

By fashion analysis, we mean the use of AI deep learning to conduct a detailed analysis of fashion and consumer apparel on social media and turning that into data so that we can quantitatively analyze changes in fashion megatrends based on that data.

By doing so, we are working to change the process in which fashion products are planned or how apparel is displayed at a large number of stores in Japan. We started out by working to change the way apparel is consumed by consumers and offering a new type of consumer experience.

After we launched this business, we had many discussions about the consumer activities in the city and that these consumption behaviors are, obviously, not just limited to fashion. That's how we started the signage ads business around May 2019.

We installed digital signages embedded with AI in places like commercial facilities, distant buildings, or in the city. We analyze the movements of people and cars in the city with the AI camera embedded in the signages to digitize information about cities. The strength of these signages is that the device can distribute information to consumers, residents, and citizens. This is rare for an AI. You might call this a mutual communication, whereby AI is not just collecting information but also transmitting information. We started the signage ads

business thinking it would be possible to define new modes of consumption in the city and lifestyles through this mutual communication with AI.

This develops into the next business in December 2019, roughly one year ago, when we started collecting data with cameras embedded in the signage ads.

Using these cameras, we thought we could capture people's movements and use that for crime prevention. Through these digital signages or AI cameras without signages, we started going deeper into the process of protecting safety and security in the city or optimizing the flow of people and cars in December 2019.

This developed even further into the parking and mobility business shown here in August 2020. This business focuses analytics on the movement of cars instead of people. Many people use cars in the city, but the frequency of using cars is far higher for people in the suburbs. Therefore, the time that people spend outside of their home is not just in commercial facilities, but a large portion of time is also spent inside the car.

Recently, there has been a lot of talk about achieving carbon neutrality, but the problem of CO2 emissions caused by congestion in urban areas cannot be ignored. Cars emit the most CO2 when running at low speed, meaning that CO2 emissions can be reduced by easing traffic congestion. We started thinking around this time that our technology for crime prevention and capturing people flow can also be used for road policy.

In December 2019, at the same time as releasing our people flow and crime prevention technology, we released a drive recorder smartphone app called Smart-kun, as shown on the bottom right.

This drive recorder is embedded with AI, so it not only records images but also digitizes the images of cars or people surrounding the car that is viewed by the driver while driving the car.

By combining this technology, Smart-kun enables the digitization of moving data inside the city that is collected when the driver is using the drive recorder. On the other hand, the cameras installed at parking lots are fixed-point cameras, so they capture fixed-point data. By collecting both moving data and fixed-point data in the city, we can provide traffic information that is real-time and fresher. Further, by capturing data about people, we think we can optimize people flow, crime prevention, and car emissions optimization toward carbon neutrality. We believe we can provide value in these domains in a broad sense.

Several months ago, we released a new service in response to the various impacts that have been seen in the market caused by COVID-19. People have been forced to spend more time at home, and have been grappling with ways to improve the quality of the time spent at home. Come to think of it, a lot of us have been living an analog life inside our homes up to now.

Some people may not want to digitalize their home environment too much. But many people had to consider digitalizing the home given they were working from home. That's when we started focusing on this need.

Especially in conversations with corporate clients, some of them raised concerns about having workers deal with highly confidential information at home, such as call centers. We heard many times that it is extremely difficult to permit working from home due to handling confidential information.

However, I wonder if having these employees gather inside a room to conduct work is truly the new way of working, during or after this pandemic, because of dealing with highly confidential information. Considering the new lifestyle that is taking hold, we think it is important to introduce a management system that guarantees the safe and secure management of data even at home. Some employees will likely raise concerns about feeling monitored while working at home.

However, doing so would protect the rights of employees to work from home. We have been in discussions about redefining how work is done at home and also the need to enable these ways of work in the city.

I've talked a lot just now, but in reflection, we started out as a business that defines new ways of consumption in a narrow sense in the apparel domain by offering new ways of product planning. Then, we started digital signages in the sense of having a two-way conversation with consumers in the city. Next, we started the people flow and crime prevention business, followed by the business aimed at carbon neutrality through capturing the flow of cars. Finally, we launched a new service catering to new ways of work.

As shown in the arrow, we have been implementing a new form of digitalization in the city based on the concept of smart city AI services.

The philosophy behind the string of service expansion has been to create new smart cities through the application of deep learning to things that couldn't be captured with sensors in the past through our cameras.

On the bottom, we have shown the progress we have made in R&D. This is a meeting for investors, so I'm going to skip the details. If you are interested, you can ask us separately in an interview. In fact, we have been making all kinds of improvements in our development activities.

Back in 2018, immediately after our founding, we were focused on building a basic AI development structure. Around July 2018, upon considering these services, we started thinking that the difficulty of scaling AI is likely the cost, as I will explain again later.

The crucial problems up to now have been cost and precision. Despite the high expectations for AI, the introduction costs were too expensive. Or, even if customers spend money to introduce AI, the results that were delivered in demonstration experiments fell short of the precision needed in full-fledged implementation, resulting in the issue that perhaps it's better for humans to do the task after all. But we focused on this problem and started developing edge AI around this time.

In May 2019, right after we released our signage ads, we came across the issue that edge AI obviously has the advantage of lower implementation costs, but also requires improvements. For example, when operating 10,000, 50,000, or 100,000 edge devices, it becomes vital to ensure a high robustness. They need to be robust AI cameras and robust signage ad devices.

For example, if a camera in a commercial facility is broken, then it is troublesome if we don't notice that it's broken. We could go fix it right away, but if we have edge devices located in 10,000 locations, then we can't visit every single place to conduct repairs and, of course, the costs wouldn't make sense.

Therefore, if we place 10,000 devices, then we need to know remotely the operation status of devices in each location. This is similar to the concept of IoT. In industry jargon, we call this alive monitoring. Creating an alive monitoring system that is robust was indispensable to scaling AI devices. That's why we started developing this function back then.

Although I will skip the details today, what I would like to explain in more detail in future IR meetings is about active learning systems and simulation development. We think this is a domain that is an extremely disruptive AI technology revolution the closer it gets to edge AI technology.

We developed edge AI back in July 2018, and for the past one year and a half or so, we have had various discussions with investors and corporate clients. In reflection, we have finally acquired the ability to explain the advantages of edge AI in the last one year and half or so. We think it will take another one year and a half to two years that we will be able to explain the superiority of active learning system and simulations in an easily digestible manner.

We will make improvements in our future IR activities so that this active learning and simulation can be understood in the sense that it decisively improves the cost and precision, which I mentioned were the critical issues in deep learning.

Well, I’ve talked a lot, but as mentioned earlier about the layering of AI services in smart cities, what Neural Pocket aims for is encapsulated in the following words: AI Smart City Revolution. This is what we will realize.

As written on the top, this will be done through the introduction of intelligent AI cameras.

In other words, we will gradually automate all kinds of activities conducted through human attention up to now, such as guaranteeing safety or organizing people flow and car movement. By collecting digital information inside these smart cities, we hope to delegate such tasks to machines, so that humans can focus their intelligence more on traffic policy or urban policy.

Using the words in the slide, it says, digital services for physical spaces to enhance our real-world experiences. We aim to realize the digitization of all kinds of information in the city.

Neural Pocket

A new major market is being created in the field of smart cities

Global Smart City market size is approx. 100-200 trillion yen

Research Company / Report Name	Global Market Size*1
Allied Market Research Smart Cities Market by Functional Area : Global Opportunity Analysis and Industry Forecast, 2018 – 2025	In 2025 **2.4T USD**
Mordor Intelligence Smart Cities Market - Growth, Trends, and Forecast (2020 - 2025)	In 2025 **1.7T USD**
IMARC Smart Cities Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2020-2025	In 2025 **1.0T USD**
Markets And Markets Smart Cities Market by Smart Transportation, Smart Buildings, Smart Utilities, Smart Citizen Services - Global Forecast to 2023	In 2023 **0.7T USD**

Asia is the source of growth for smart cities

Smart City Market Growth Rate by Region (2019-2024)

Source: Mordor Intelligence

The reason why we are focused on smart cities is, naturally, because cities are closely linked to our lifestyles and it would improve convenience by leaps and bounds. But not only that, we think what's important to focus on as a private sector company is the market size.

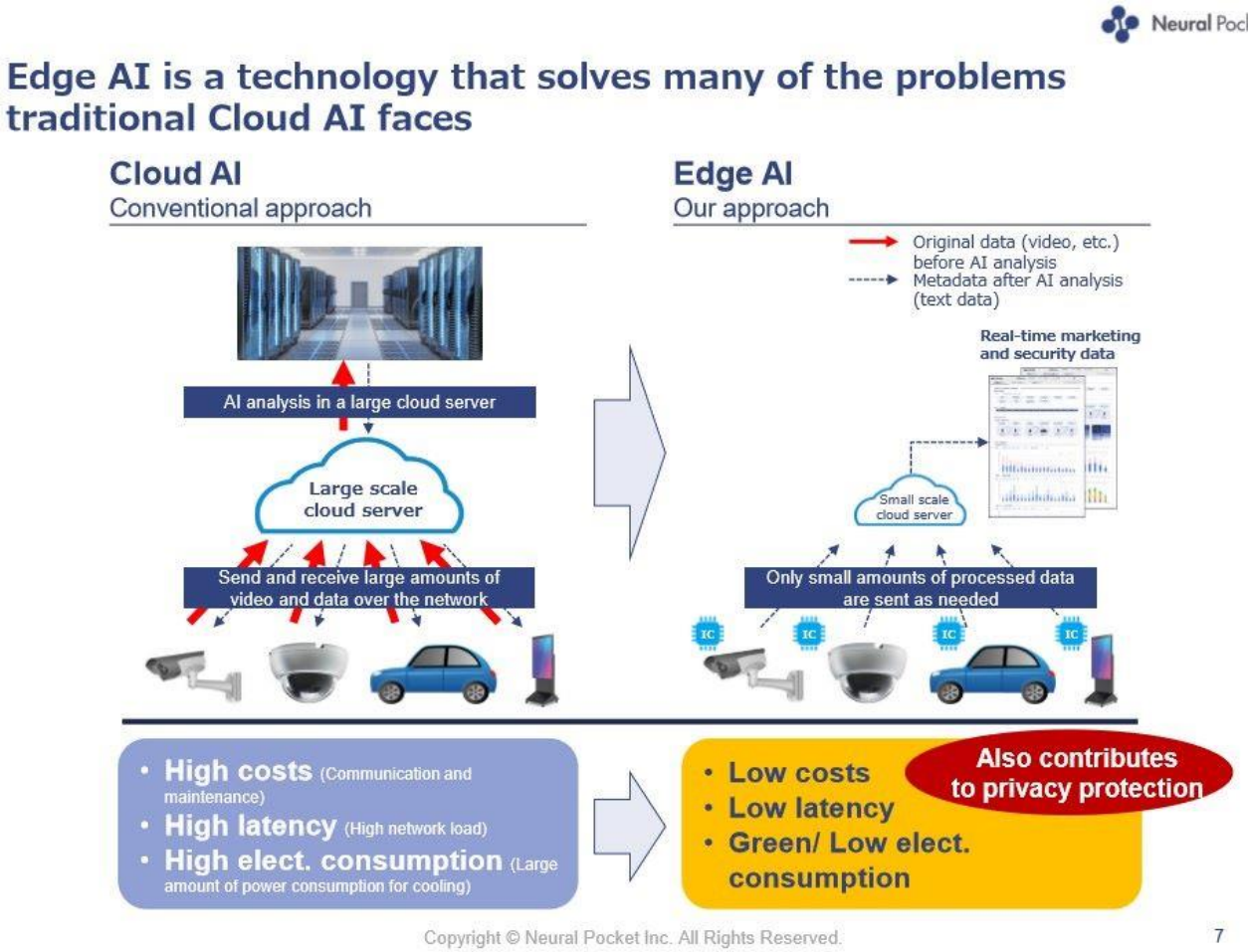
Globally, the total addressable market for smart cities is estimated at roughly JPY100 trillion to JPY200 trillion in 2025. I often receive the question of which places have made the most progress in smart cities. According to experts, Asia has made the most progress.

That is to say, in Europe, the US, and advanced countries, cities are already highly organized and efficient. They already have an environment that makes it easy for people to live in. On the other hand, emerging countries are re-developing cities rapidly. For example, Southeast Asian countries are turning clearing forecasts to create cities from scratch.

These trends are extremely beneficial to urban development, albeit there are various considerations that need to go into global warming and CO2 emissions when doing so. It's often said that a crucial point for these forests turned into cities is to create digitalized cities, along with making them eco-friendly and livable.

From that perspective, when creating new cities in Asia, it's apparently important to create cities that are conscious of the environment by turning them into smart cities.

We have offices in Japan and Singapore based on such a perspective. We would like to lead these smart city initiatives in Asia.



To repeat what I said at the outset, edge AI technology is essential in creating smart cities. Although the conventional cloud AI technology is extremely important, we have shown how deep learning has been used on the left side.

First, the common element between the two is that they use cameras, in-vehicle cameras, or digital signages embedded with cameras to collect all kinds of image data.

However, a lot of this image data had previously focused mainly on collection and storage. When processing this data with AI, as shown on the left side, the collected image data must be transmitted and uploaded once through optical fiber cables to a large-scale cloud server.

Then, the images uploaded to the cloud server is then transferred once to a server room that processes the AI, as shown on the top, which is referred to as a GPU server in industry jargon. The data is transferred to this GPU server room. This uses optical fiber. The image data that is transferred to this server room is then digitized on the spot through deep learning.

Data that has been digitized is very light. In industry jargon, this is referred to as metadata. This metadata is then returned to the server and needs to be fed back to each terminal.

When doing so, there are several problems, and one of them is cost. This would obviously require the installation of a fiber network and 5G communication network that incur costs. It also requires a server room. We have a very small server room of our own, but the maintenance fees are quite high.

Servers generate heat at very high temperatures, requiring us to continue using air conditioners are extremely high strength. In the sense, the electricity bill had an impact that couldn't be ignored.

In addition, a key point is high latency, as written here. It takes quite a long time when sending video footage to the cloud server. This footage is sent through streaming. When doing so, the footage that is sent is transferred one more time.

For instance, when taking a video that is one-hour long, it is said that it takes about the same amount of time of about one hour for the one-hour video to be processed in the GPU server room. Then, the transferred video is processed with AI and then returned. At the earliest, this takes several hours. At slow companies, it takes about one month for the analysis to come back because of the queue at the research center, and this was common up to now.

The problem with this is that, for instance, when introducing crime prevention or smoother traffic flow in cities, the traffic policy cannot be implemented because of this latency.

On the other hand, the key point with edge devices, as shown on the right side, is that a chip inside the camera is using to conduct AI processing on the spot within the devices that are taking the images.

What this means is that the very moment that the photos are taken, in roughly one second, 10 or 30 photos taken can be turned into videos. By combining these images into something like a flip book, the continuity of the images appears like a video to human eyes. We analyze each of these photos that were taken at a speed of around 3/1,000 of a second, with a latency of around three milliseconds.

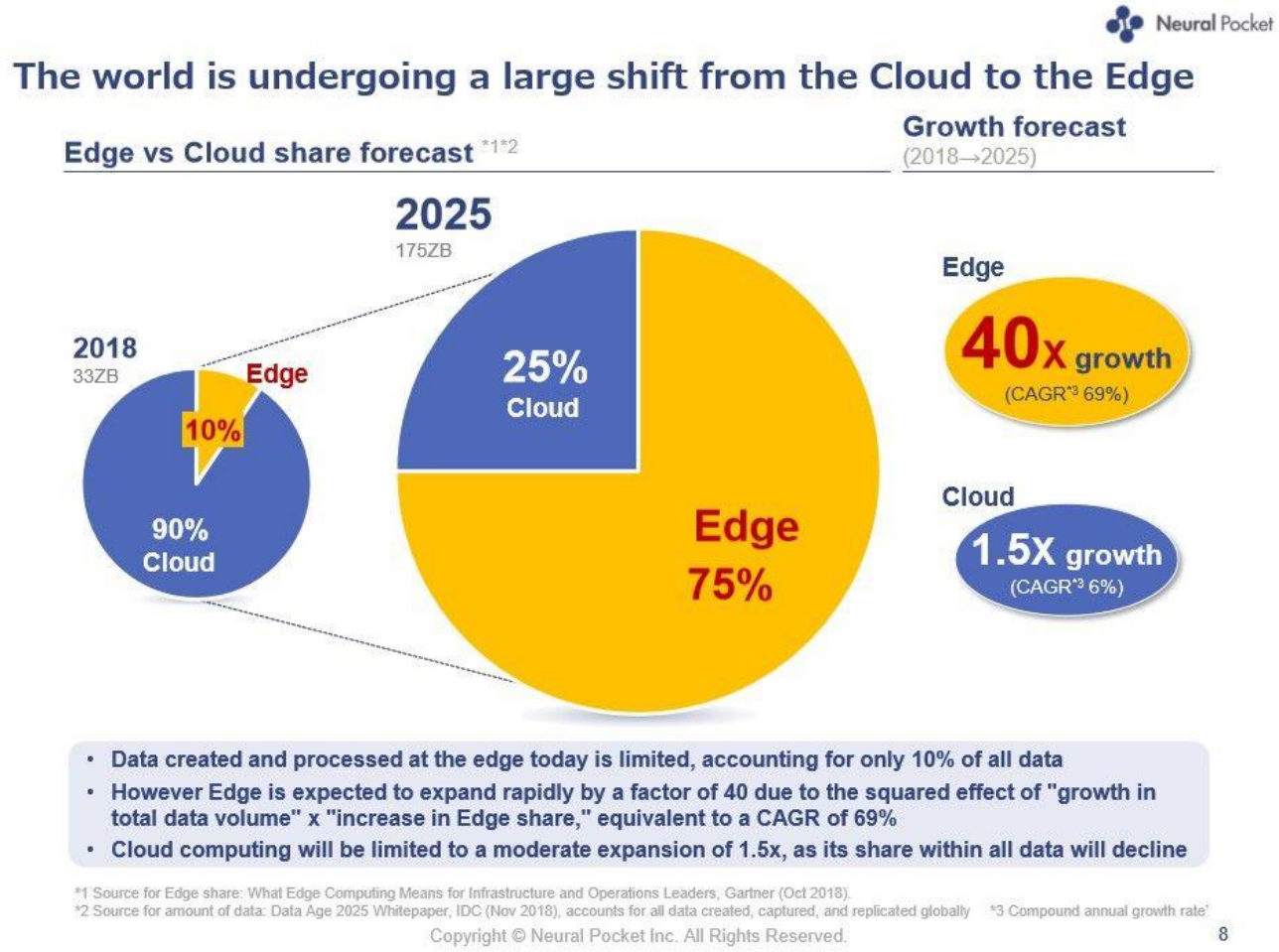
What's good about this is that the raw video data can be stored inside the device and disposed at the timing when it is no longer necessary. Then, the cost of transferring the video is eliminated.

It also does not require the money invested in large-scale server rooms like GPU servers or electricity costs. The images are processed instantaneously when they are taken, so it realizes low latency, with the fastest speed being around 3/1,000 of a second right now. Because analysis can be done instantaneously at low cost, it becomes possible to take immediate action catered to that situation. As I stated earlier, this also results in greener operations with low energy consumption.

Another point I'd like to repeat is the decisive advantage of edge computing in protecting privacy, as indicated inside a red circle on the slide. What this means is that the moment an image is taken, it is processed with AI on the spot, so the image doesn't need to be transferred to a server. It can't be ruled out that the images inside cities, such as the images of the faces of citizens or information about who is walking or how they are walking, are in a sense directly linked to their privacy.

There have been long and repeated discussions about whether transferring such information to a server should actually be done in smart cities. Especially in the US, people are very sensitive about sending these images to a server and frequently say that it should be avoided as much as possible.

We currently think that it is, in fact, an intangible added value that our edge technology can contribute substantially to privacy protection by disposing of collected images once the analysis is completed, without directly sending the personal information of citizens to a server.



I mentioned that edge computing is essential to a smart city. In fact, there is a lot being said recently about the expansion of such edge computing, and here we have conducted an analysis based on a summary of two reports, one by Gartner and the other by IDC.

It was actually around 2017 that edge computing started being discussed from an engineering standpoint. This technology started being proposed from around 2017, and it started being used in many ways centered on frontrunners around 2018. Especially when it comes to IoT, data must obviously be processed on the spot, and IoT was the central application from which edge computing started off.

On the other hand, these IoT devices will increasingly turn into cameras when we approach 2025. Obviously, the amount of data that can be captured with a camera is enormously larger than the data collected with sensors. Once that makes progress, then the data volume from edge cameras eventually exceed the data volume that can be transferred through existing network infrastructure, and that is an extremely critical point.

When this happens, the ratio of data processed in the cloud will increasingly be limited, and in many cases, people will say that the amount of data cannot be processed in time unless it is processed on the spot through edge computing.

Although this data is a little old, as of 2018, cloud computing accounted for around 90% of the data volume, but this trend is expected to reverse by 2025, with roughly three-fourths of the data volume likely to be processed using edge computing.

When calculating this backwards to derive the growth rate from 2018 to 2025, it would mean the edge computing market will grow 40-fold over the next several years. Of course, cloud computing will grow, too,

but only by roughly 1.5 times. In terms of CAGR, edge computing is expected to grow at roughly 69%. On the other hand, cloud computing is expected to grow at a CAGR of 6%. The reason why we focus on edge computing is, in fact, because we think edge computing is indispensable in the context of this macro trend as progress is made in creating smart cities.

I will skip this part, but Gartner and well-known investors are saying the same thing.

From page 10 onwards, we explain the 6 types of services mentioned earlier that we offer against this backdrop. The pillars of our service right now are the following: people flow and crime prevention, parking and mobility, 3D city maps, signage advertisements, work from home support, and fashion analysis. I would like to give a brief explanation of these services.

First, in people flow and crime prevention, there are various elements, five examples of which are written here. The one on the upper left is the most basic analysis technology of facial recognition. There are a number of companies around the world that have this facial recognition technology, and this is a superior technology.

It is of course effective to use this as an authentication system, but what's more important and what we're focusing on is the use of facial recognition to improve security, such as finding children that have gotten lost, preventing crime, or identifying people on blacklists.

In the middle, we have shown micro people flows. This has particularly been used for preventing excessive crowding against the backdrop of COVID-19. Also, by not only analyzing the number of people but also how they are moving, we are working to utilize it to improve ways of presenting things inside cities or how to attract tenant in urban development.

Neural Pocket

Parking and mobility services are universal across countries

In the parking and mobility business, we use our technology to detect cars. This includes analysis, especially of parking lots of private parking lot operators, but also parking lots at large-scale commercial facilities, and truck berths in logistics facilities.

By digitalizing information where cars are parked, we are operating a business with huge benefits in providing these parking lots to cars or carry-in places of distribution warehouses to alleviate traffic or eliminate wait time as much as possible.

As for Smart-kun, this is a drive recorder app, as I mentioned earlier, that can be downloaded for free.

This is a drive recorder app that can be used for free. We borrow a little bit of the CPU power inside smartphones while people are driving to digitalize information in the city.

We also use the gyro sensor inside smartphones, which is the acceleration sensor, to capture the acceleration rate from the three axes of front, side, and vertical. By capturing this data, we can, for instance, learn how steep is a curve on the road.

Or, in terms of vertical movement, the road is uneven, isn't it? We use these data for road policies such as where the roads need paving, where there are holes, and so on. By doing so, we are providing services based on the idea of contributing to safety and strengthening the country.

This is a signage advertisement. The photo on the right is in the signage ad. An AI camera is embedded on top. This signage not only displays the content, but analyzes the viewing status of the content and the information of the people around it. It also detects children who have gotten lost with the camera and sends the information to the security office. It is convenient digital signage with multiple functions like these.

The business model of this signage is, in part, to sell the signage. But, more importantly, we are simultaneously running advertisements in expectation of earning advertising revenue. We run these ads to make the devices themselves operate on advertising revenues. We are simultaneously working on a shift to this business model.

As I mentioned at the start, RemoDesk is a support tool for the realization of visualizing at-home call centers. The scope of detection includes whether workers are seated or away. They key point is to detect whether anyone is peeking, spoofing, or taking a photo with a smartphone.

Most people who conduct work at home carry out operations in accordance with compliance regulations. However, I hear that there are some workers who sometimes bring their smartphones inside the call center box, which is in reality prohibited.

The operators who work at a call center obviously handle the personal information of customers who are on the phone with them. If they were to take a photo of that information with their smartphones, then that information could be divulged. That was a very important point when shifting to remote work.

The software helps prevent the violation of these compliance regulations by detecting smartphones from the camera embedded into the PC and notifying the administrator of the image only when such problematic actions arise.

Put a different way, privacy management is rigorously ensured so that the images are not sent to administrators as long as workers are compliant with the rules. Therefore, this is a safe and secure tool for most people. The tool would control the behavior only of those who are in violation of the rules. This is how this tool is currently being used.

The fashion analysis business is shown here. As I stated earlier, we analyze the consumer attributes and clothing attributes as shown on the upper left and put tags on them as shown in the middle. By doing so, we currently analyze around 40 million photos. The data volume we possess right now has exceeded 100 million data. By conducting analysis of fashion trends using this massive data, we currently support the product planning of apparel companies. Products that have been planned through our AI service are now being sold at over 3,000 stores nationwide.

The reason why we originally started this business was due to the difficulty of analyzing fashion trends and forecasting demand in the apparel industry, albeit this is slightly different from what I mentioned about smart cities. That is to say, those who are leading figures in the industry say what the trend is in fashion that year. For instance, if they say that beige is the trend color this year, then everyone would make beige clothes. Or if white is used a lot in the Milano or New York collection, then companies would make more white clothes.

But trends are also determined in part by consumers themselves, so the trend that the designer imagined wouldn't necessarily take hold. If that happens, then it leads to a massive amount of waste that is incinerated, which had been a social problem.

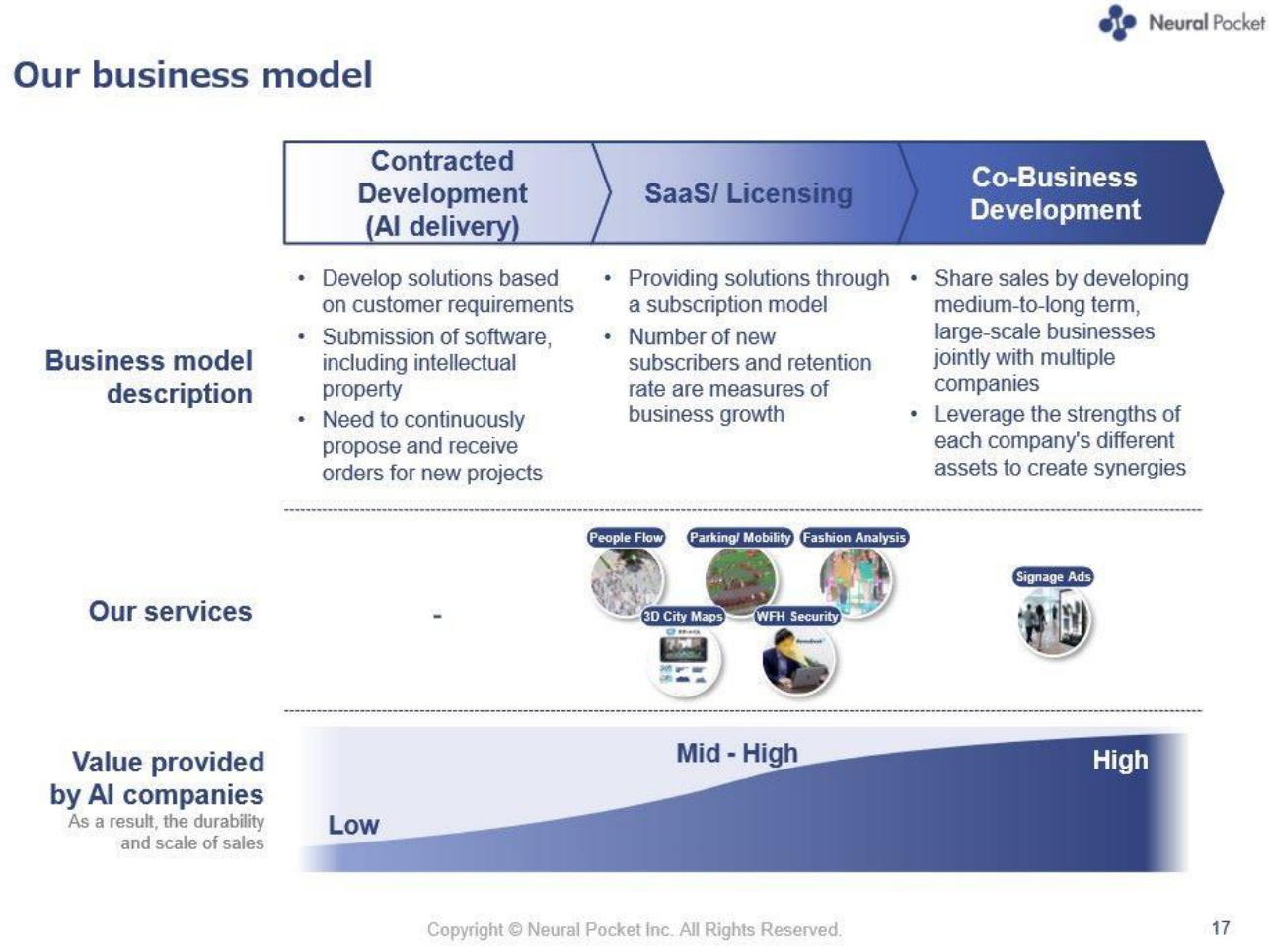
Back when we were founded, it was often said that the domestic apparel industry was worth around JPY10 trillion. But around 10% worth of clothes of this JPY10 trillion turned into waste and was incinerated, and this was a topic that was often discussed. Especially back then, there were many people who talked about Burberry clothes being incinerated, but that wasn't a problem of just Burberry, but also a problem in the entire industry.

Simultaneously, we often thought that it would be bad from the perspective of ESG for such products to turn to waste, even before the idea about smart cities, and that it should be prevented without fail.

By turning these product planning that was based on intuition up to now into data as much as possible, we have been working on helping manufacturers create products that meet the latest needs of consumers.

While many apparel operators still exist nationwide, around 3,000 stores handle products that we planned. The apparel services that we offer by using our system improves the list price sales ratio of inserted products by around 10%. An improvement of 10% in the list price sales ratio means that it not only reduces waste and disposal but also increases the list price sales ratio by 10 percentage points at the same time.

In apparel, the gross margin is around 50%. There are some that are even lower, but we are currently contributing to an improvement of around 5 percentage points based on the gross profit. We have made a certain degree of progress in these services using AI, the financial impact on corporate customers, and the effect on reducing waste disposal.



Finally, I would like to review the six business models that I just mentioned.

The services that I just mentioned, as some of you may have noticed, are all services that are provided continuously rather than being hired on contract.

Of course, AI has often been perceived from the perspective of engineering up to now. AI companies were consigned with projects from major companies, programmers and engineers developed the programs required by major companies, and sold or delivered the AI software to large companies. Up to around a year

ago, in many cases, everything that is delivered, including the source code and intellectual property, were provided to customers in exchange for development fees.

A topic that has been discussed in the AI industry over the last few years has been that continuing short-term contract development wouldn't contribute to the continuous growth of AI companies. It has been three years since our Company was founded, but the point that we focused on is that we have never conducted contract development in the past.

On the contrary, what we have been doing is what is shown in the middle whereby many AI companies have recently been creating their own services and licensing them out.

For example, this also applies to the people flow analysis that I mentioned earlier. We license out the people flow analysis technology to private companies, the government, or other such places. The license ends once these parties stop using the technology, so it is similar to the so-called SaaS business model.

In other words, the number of service users multiple by the churn rate to derive a simple continuation rate would shed light on the growth capabilities of the business. That is the kind of business that we have focused up to date.

One of the businesses that have a different business model is signage advertising, which has a slightly different business model of working together with large companies to create businesses.

What this means is that, even though we are a small company with roughly 30 or so employees, we have the strength of possessing the services, such as the ability to create AI programs, our possession of edge alive monitoring systems, and advertising distribution systems.

At the same time, by conducting activities together with operators that have the communication technology used in those services or have abundant sales resources, we receive help in expanding sales of the signages through the usage of the communication technology or sales support. Other companies include advertising agencies that find the advertisements to be run on these devices.

From their perspective, by contributing to the expansion of this new market, then there would be greater scope of advertisements, resulting in a win-win relationship.

Or, if there is a company that makes the device, then it would naturally be better for them if they deliver and sell a lot of these devices.

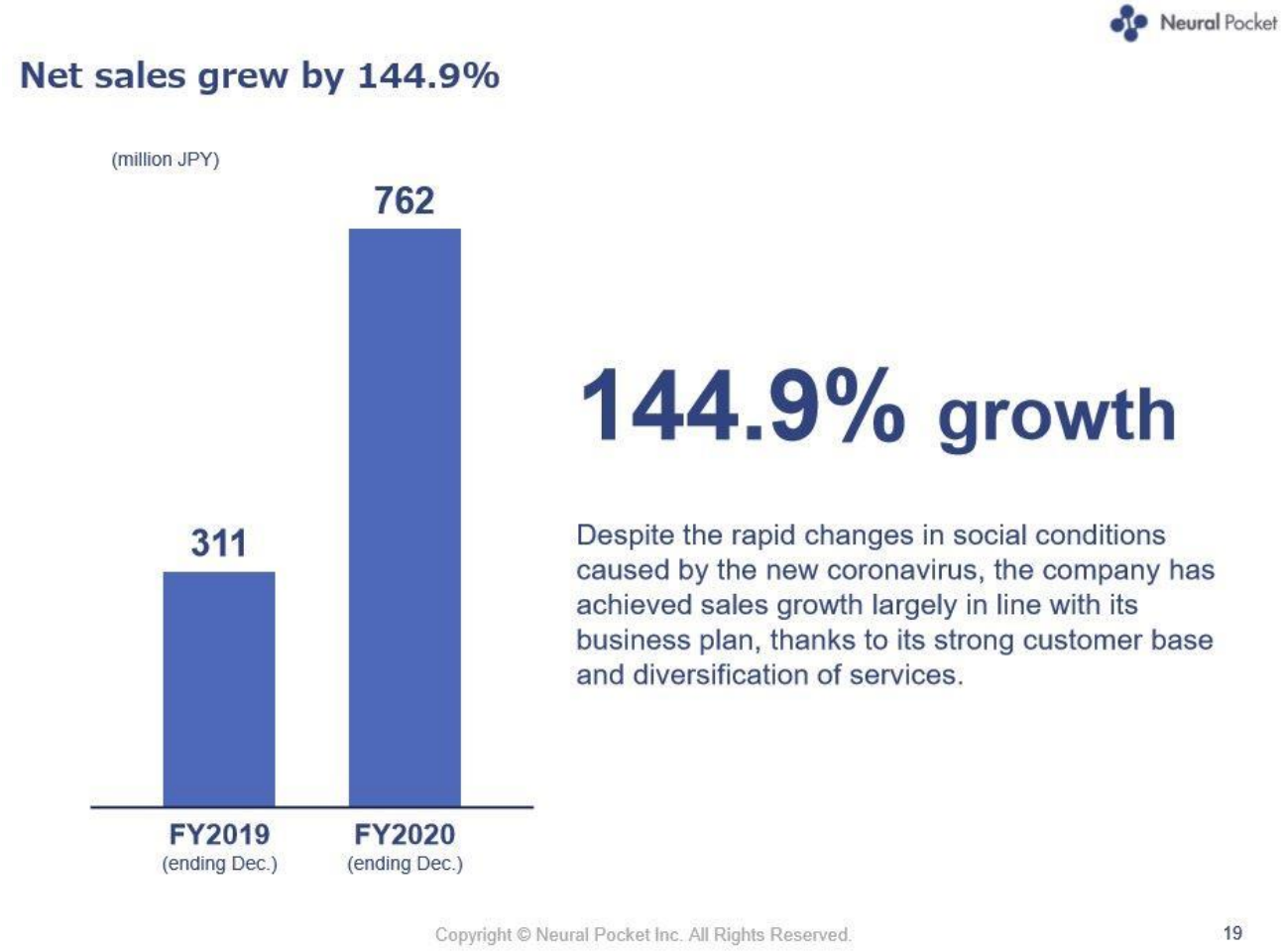
We are promoting this business together with various stakeholders who are conducting different businesses in the value chain. By doing so, companies like ours with AI technologies product services that are two steps ahead of what is typically done with regard to AI companies creating programs on a contract basis. I hope you will have an image of this win-win relationship with many large companies to be something like having several wings on our back.

We are promoting joint business development that would allow us to take off with four or five wings.

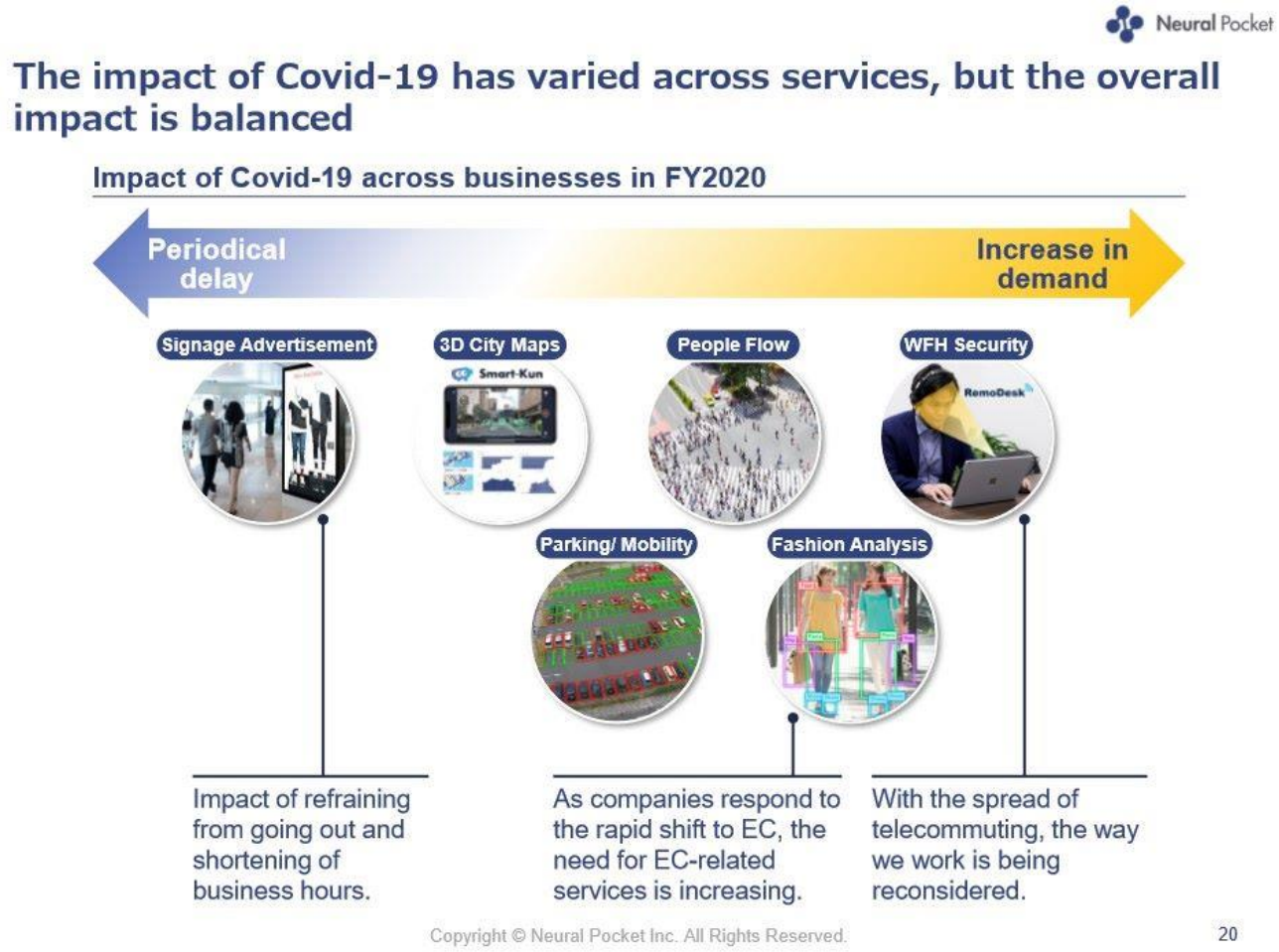
This is of course an extremely huge aspect of the value provided by AI companies, and when expanding this business, the key bottleneck is that everyone wants the AI capabilities that realize these services.

By having such capabilities, the companies that are attracted to those technologies form an alliance with the AI companies, and lead the AI companies to form an alliance. That said, the value provided is high. In other words, the scope of sales that can be obtained can naturally be expected to increase.

We are conducting our business based on this SaaS/license type and business co-development business models. We are conducting activities to raise the precision of our business with the aim of turning each service into a segment and setting KPIs within the next one or two years.



Next, I would like to go over the financial results for the fiscal year ended December 2020 and quickly reflect on the fiscal year. Net sales were JPY762 million.



Honestly, we think there was some impact from COVID-19 on the business.

As stated in the beginning, the signage business, which was one of our foremost businesses two year ago, and is still a promising business, was premised on outdoor store operations, which were shortened in hours or refrained due to COVID-19, obviously causing a slight stoppage in the introduction of the signages.

This, by no means, means that the business is retreating, but it is purely due to the fact that introducing signages is difficult when commercial facilities are closed. Therefore, these commercial facilities, such as apartments and buildings, and their resumption of operations are required conditions for this signage advertising business to be rolled out. On top of that, the state of emergency declaration had an impact.

However, recently, after the new year started in 2021, the impact of COVID-19 has settled down substantially, so the signage advertising business is starting to return to the normal mode.

We feel a slight increase in the needs for parking lots, people flow, and fashion analytics. That is, it is necessary to pay even more attention than before to the movements of people in cities for people flow and crime prevention.

Especially for real estate companies and local government, they must have consumers and citizens act correctly to be able to open the city or facilities. By correct, I mean the prevention of the [Cs] and refraining from activities after 8:00 PM during the emergency declaration. This responsibility had weighed on the shoulders of local governments and real estate companies in guiding people according to policy.

However, if people were to go outside and conduct the monitoring, it would be far detached from the times. Against this backdrop, there has been rising needs to utilize this technology to realize this, without spending too much cost. The same can be said of cars.

Regarding fashion, there is of course a gradual trend for a gradual decline in the ratio of people who physically visit stores, as I explained before. People obviously don't want to go to the cities that much.

Especially in terms of apparel, companies with suburban stores are performing very robustly. However, for stores that are directly connected to the stations or supermarkets, where shops inside multi-complex facilities, are seeing an impact from restraint on business activities at the facility level. Because tenants are prone to be impacted by this, instead there was a shift to ecommerce.

Against this backdrop, ecommerce has increased, driven by ZOZOTOWN, but each apparel company is facing the need to make an improvement so that they can create their own ecommerce. Over the last two to three years, every company has been making improvements, saying that they need to create their own ecommerce or owned media. There has been a trend for such activities to expand and progress.

In this context, almost none of the apparel companies had created their own ecommerce business. Not many of the fashion companies had strengths in digital, and they relied more on their own sensibilities in creating the shopping flow inside the stores. Everyone has been very devoted to this, but in the shift to ecommerce, but it was quite difficult for them to figure out in which kind of ecommerce the recommendations should be provided, and which trend items should be brought to the top screen of the ecommerce site. This was something quite difficult to do systematically.

Currently, by using our AI demand forecasting analysis, the content or items that are displayed on ecommerce sites, for example, people who buy beige knitwear, when it is better for an additional recommendation to be made to these people, our demand forecasting system is used. In fact, below the beige knitwear, if it is possible to know based on the trend that brown pants, for example, match well with the knitwear, then that is recommended. The use of this demand forecasting system in the recommendation engines of ecommerce sites has already gotten off to a start recently.

In fact, the difference with daily necessities that are sold on other sites such as Amazon and fashion is that there are major changes in trends.

With regard to ecommerce on Amazon or Rakuten, for instance, the data that people who buy product A tend to also product B is accumulated, and that data can always be used. For example, people who bought a book on economics may tend to frequently buy a book that digs deeper into microeconomics. Or they may frequently buy a book on the Commercial Code, and this trend won't change for 5 or 10 years.

However, in apparel, even if data is accumulated that people who for instance purchase beige knitwear tended to buy brown pants over the past month is accumulated, it would be meaningless if that recommendation is provided six months later. People won't buy that anymore.

Given that apparel products have an extremely rapid life cycle, the recommendation engines used in ecommerce, such as those based on data that people who bought product A also tended to buy product B, aren't effective. Apparel companies say that it is highly effective to use the engine of companies like ours that have data on trends.

Neural Pocket

FY2020 ending Dec. Statement of Income

(million JPY)	FY2019 ended Dec.	FY2020 ended Dec.	Increase (amount)	Increase (percentage)
Net sales	311	762	+451	+144.9%
Operating profit % of net sales	-133	170 *22.4%*	+303	Turned profitable
Ordinary profit % of net sales	-139	148 *19.4%*	+287	Turned profitable
Net profit % of net sales	-139	147 *19.3%*	+286	Turned profitable

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Given those circumstances of an acceleration in growth in some businesses offsetting the temporary stagnation in other businesses, net sales increased by around 145% YoY.

Operating profit was JPY170 million, and the operating profit margin was 22.4%.

Neural Pocket

FY2020 ending Dec. difference from forecast

(million JPY)	FY2020 ended Dec. forecast	FY2020 ended Dec. results	Difference (amount)	Difference (percentage)
Net sales	**776**	**762**	**-13**	**-1.7%**
Operating profit % of net sales	**165** *21.3%*	**170** *22.4%*	**+5**	**+3.0%**
Ordinary profit % of net sales	**139** *17.9%*	**148** *19.4%*	**+9**	**+6.5%**
Net profit % of net sales	**115** *14.8%*	**147** *19.3%*	**+32**	**+27.8%**

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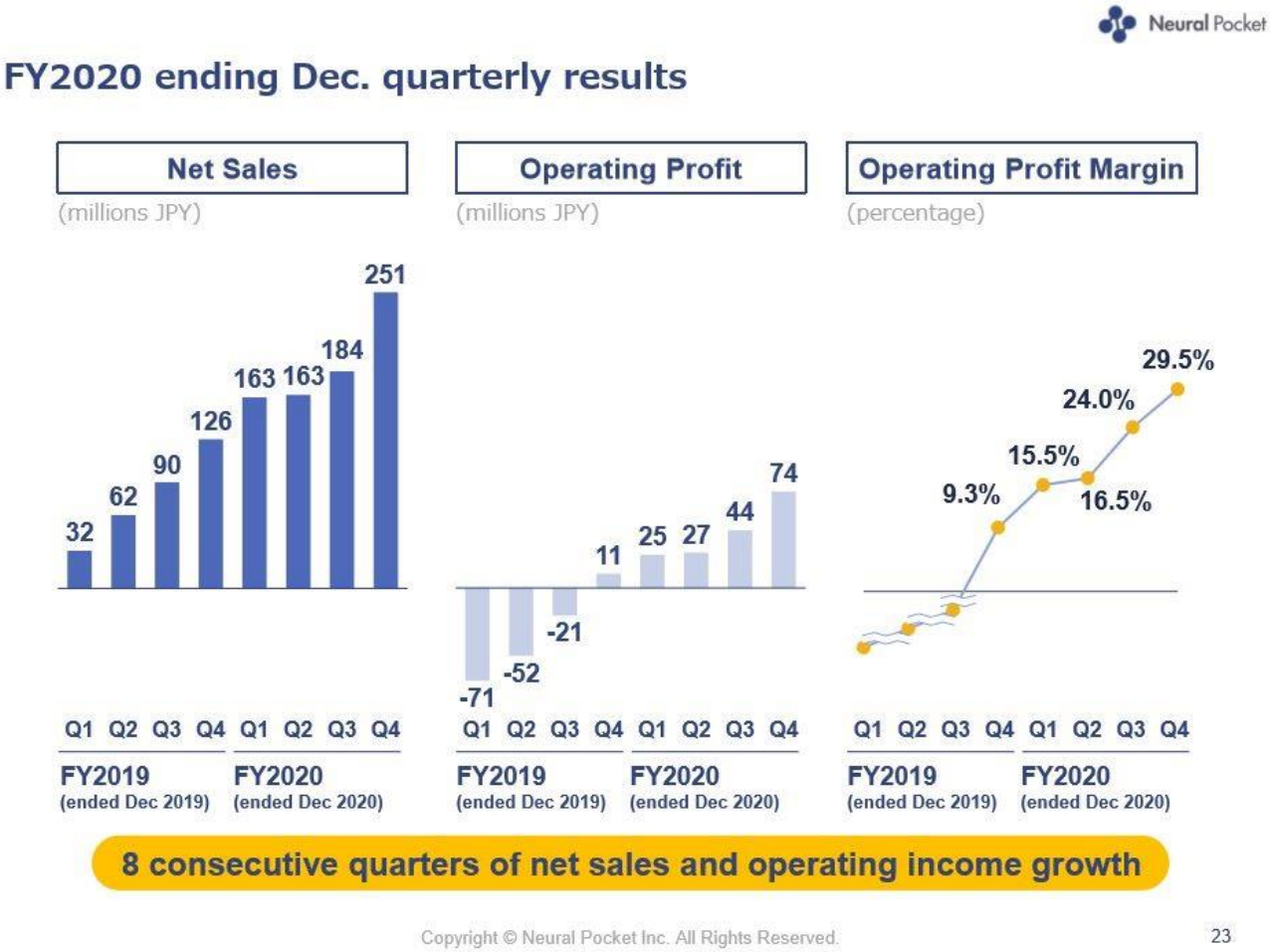
Regarding the difference with the full-year forecast, net sales came in about 1.7% short of the forecast. Operating profit exceeded the forecast by 3.0%, roughly in line with the forecast.

We formulated this forecast in 2020, around December of last year, which is around one year and three months ago. Because we had created these targets before the pandemic took place, we struggled a lot to achieve the targets.

Especially in the first and second quarter, even though the impact of COVID-19 was insignificant around June to July, the digital signage business especially had to decelerate for some time in Q3, but this was offset effectively by other businesses. The so-called layering of AI services had an impact in these areas, and that is what we feel when reflecting back on the past year.



Regarding the growth trajectory by quarter, we had already stated our outlook during Q3 results, so ultimately the outlook has not changed much from that time. As we stated, we have more or less finished in line with our targets.

The operating profit margin is currently near 30%, and when our IR department explains this, we often received questions asking how far we are going to grow this margin. In the next fiscal year, we aim for a level of roughly 30% as a benchmark, and for any surplus profit, we will allocate it to near-term investments.

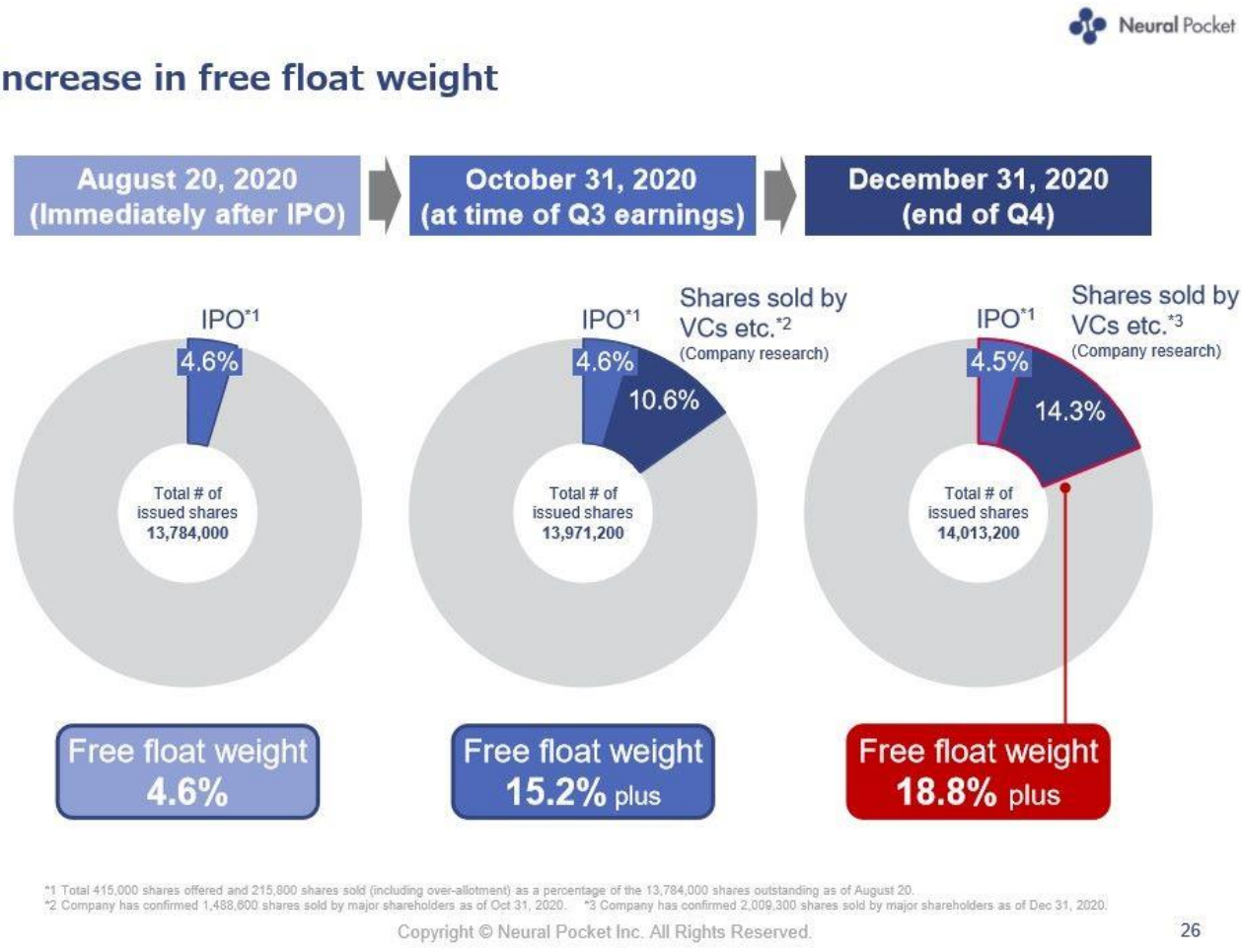
I will skip the balance sheet.

Neural Pocket

FY2020 ending Dec. Balance Sheet

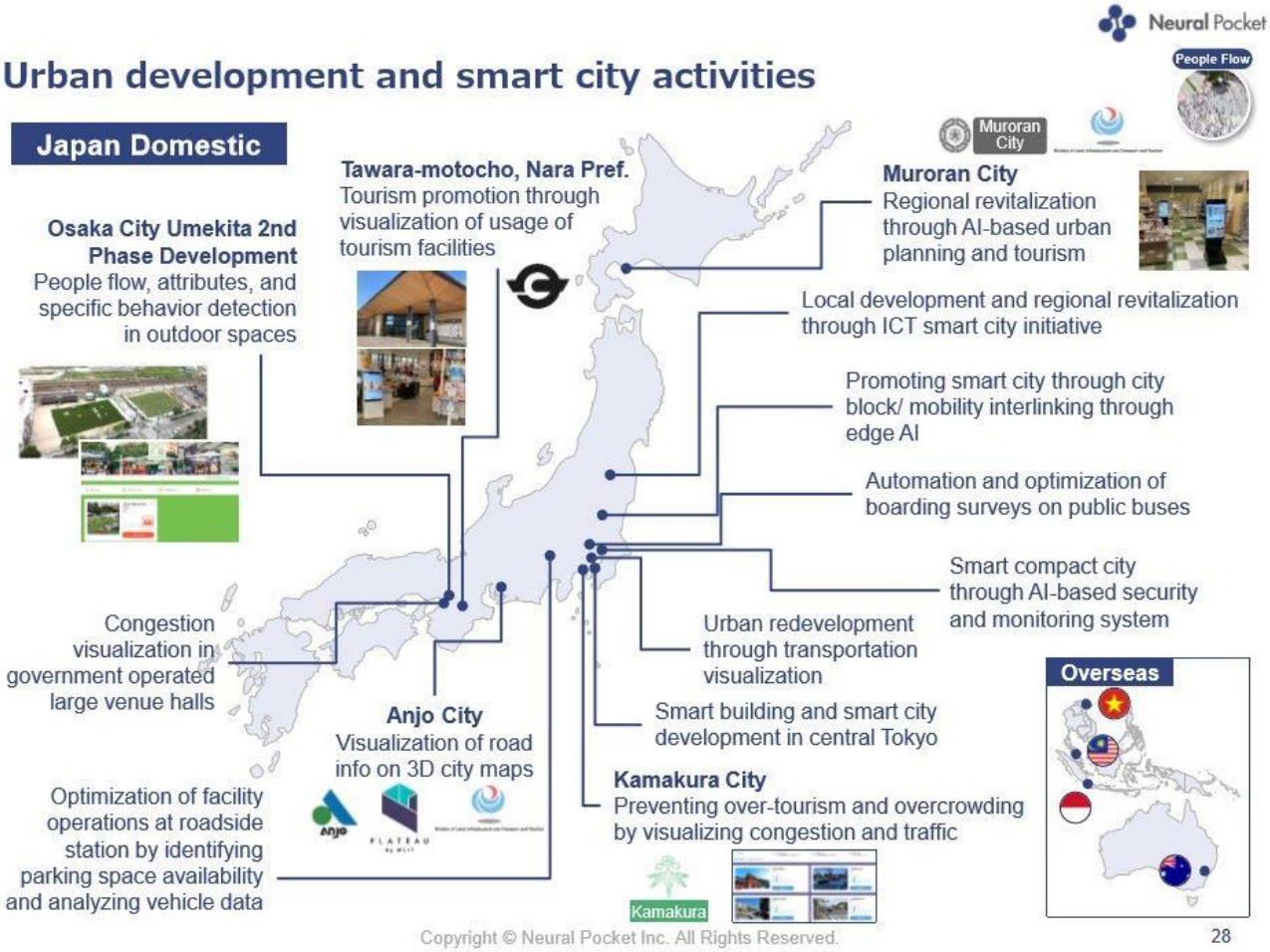
(million JPY)	FY2019 ended Dec.	FY2020 ended Dec.	Increase (amount)
Total current assets	**919**	**1,673**	**+753**
Cash and cash deposits	825	1,424	+599
Total non-current assets	**137**	**247**	**+110**
Total assets	**1,056**	**1,920**	**+864**
Total liabilities	**431**	**714**	**+283**
Interest bearing debt*1	378	564	+186
Total net assets	**625**	**1,206**	**+580**

As for cash flows, I think it was good that operating cash flows turned positive.



As for the free float weight, this is not the definition of the so-called free float shares, but instead, it is defined to mean the free float shares that are actually in the market. We also disclosed the free float weight during the third-quarter briefing. There has been some progress in this weight during the full-year period.

The current free float rate is 18.8%. We consider this 18.8% to be a ratio of shares that generally makes it easier to trade shares in the market.

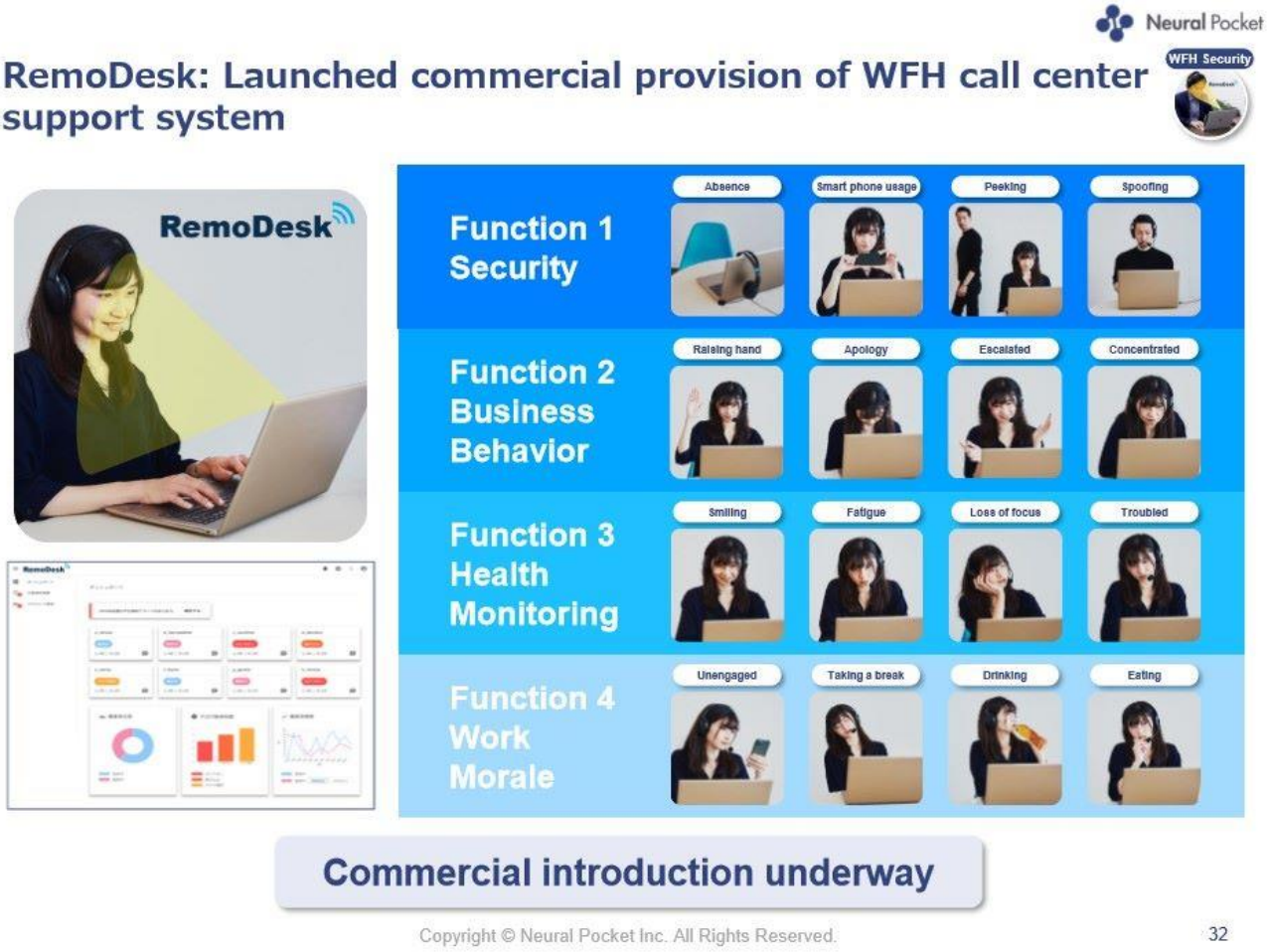


Although I will skip the business highlights, the smart city activities are currently being carried out at separate commercial facilities and local governments, as explained earlier. This is an illustration where we have plotted our activities liked to such local offices or facilities onto the Japanese map.

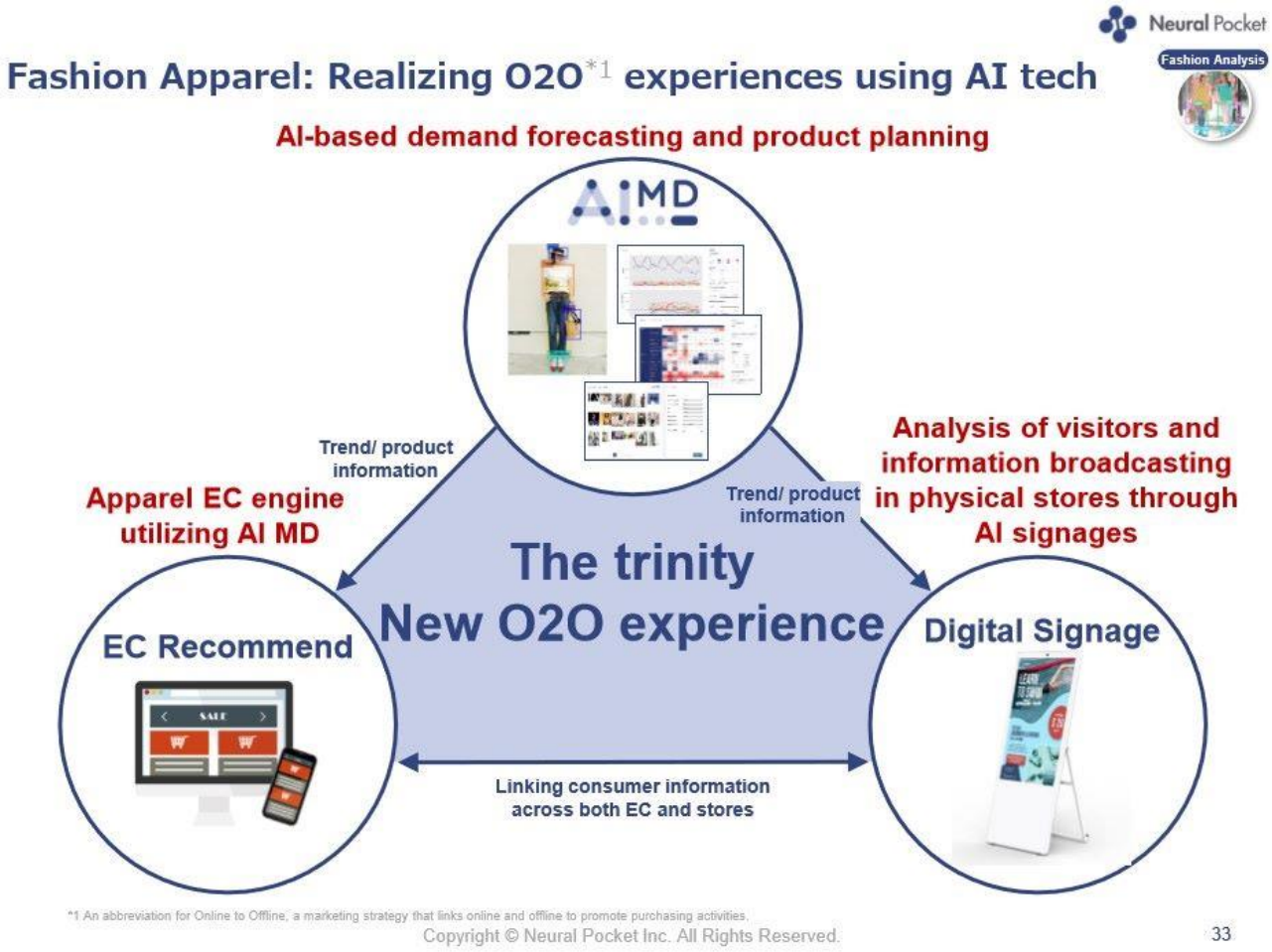
There has been a slight increase in the domestic and overseas markets, and we are realizing the creation of smart cities inside and outside of Japan. Regarding this topic, our IR department has issued information each time they have arisen, including the names of cities, local offices, and locations. Going forward, we hope to further disclose information on developments on this front at the timing when we can do so as necessary.

As for our collaboration with government offices, we participated in the 3D City Model of the Ministry of Land, Infrastructure, Transport and Tourism last year. We hope to make this a service that can meet everyone’s expectations as we consider the instructions of these governments offices to be essential to the digitalization and smart city of the country, as explained earlier.

As for private companies, I will skip this because we have already issued IR disclosures, we have customers such as Tokyo Tatemono, Prologis, Mitsubishi Estate, and others who are actively utilizing our AI.



Progress is also being made toward the realization of RemoDesk.



In the apparel domain, as I stated verbally earlier, this will be a repetition, but as shown on the top, demand forecasting with AI and product planning are directly linked to the ecommerce recommendation, which I mentioned earlier and is shown on the bottom left. Also, as shown on the bottom right, this will be fed back to the utilization in digital signages.

Of course, as I stated, the shift to ecommerce has recently been advancing, but there are also customers who physically visit the stores. When doing so, there are some people who say that the clothes worn by mannequins are a little old. This is, in half part, unavoidable. In a store, there is an area manager, or a store manager, who dress the mannequins with products, which they want to sell based on their individual sensibilities, drawing on information obtained at that time.

This was a form of beauty, which was linked to those human sensibilities, but in the sense of digitalizing that further, by using these digital signages, we make it possible to recommend the latest products that they want to promote on ecommerce. By also displaying them on digital signage in the storefront, too, they can organically connect ecommerce and real stores.

As written in the middle, this is a trinity new O2O experience, where the border between online and offline is eliminated. We think that going both ways, the utilization of this data is required for the latest fashion using trend information and releasing the latest clothes continually while they are fresh.

Lastly, I will go over our financial results forecast for 2021. This is the image of growth, which the Company aims for in the future. We also disclosed this during Q3, so this part will be a repetition. Neural Pocket, up until August 2020, have been advancing business creation and the layering of AI services. Since the latter half of last year, we have been advancing the deepening of this business model.

What this deepening of the business model means is the maturation of service quality. This is directly connected to turning edge systems robust, as I stated earlier.

In other words, this is maturation in the sense that the system can continue to operate robustly even when there are 10,000 or 100,000 locations. This doesn't mean maturation in the sense of realizing PoC or going from PoC to commercialization, but it means the advanced robustness to a level that can bring the applicability of commercial systems from several hundred units to several tens of thousands of units.

Second, this is our collaboration with business partners. As I stated earlier, we are currently advancing efforts with various business partners to sell products together or use products together, and we consider this to be the most important management issue.

When such things advance, there will be a clear definition of business segments, such as a SaaS model or business development model, as explained earlier. Then, it would be possible to figure out our KPIs, and we hope to dig deeper into this over the next two years or so.

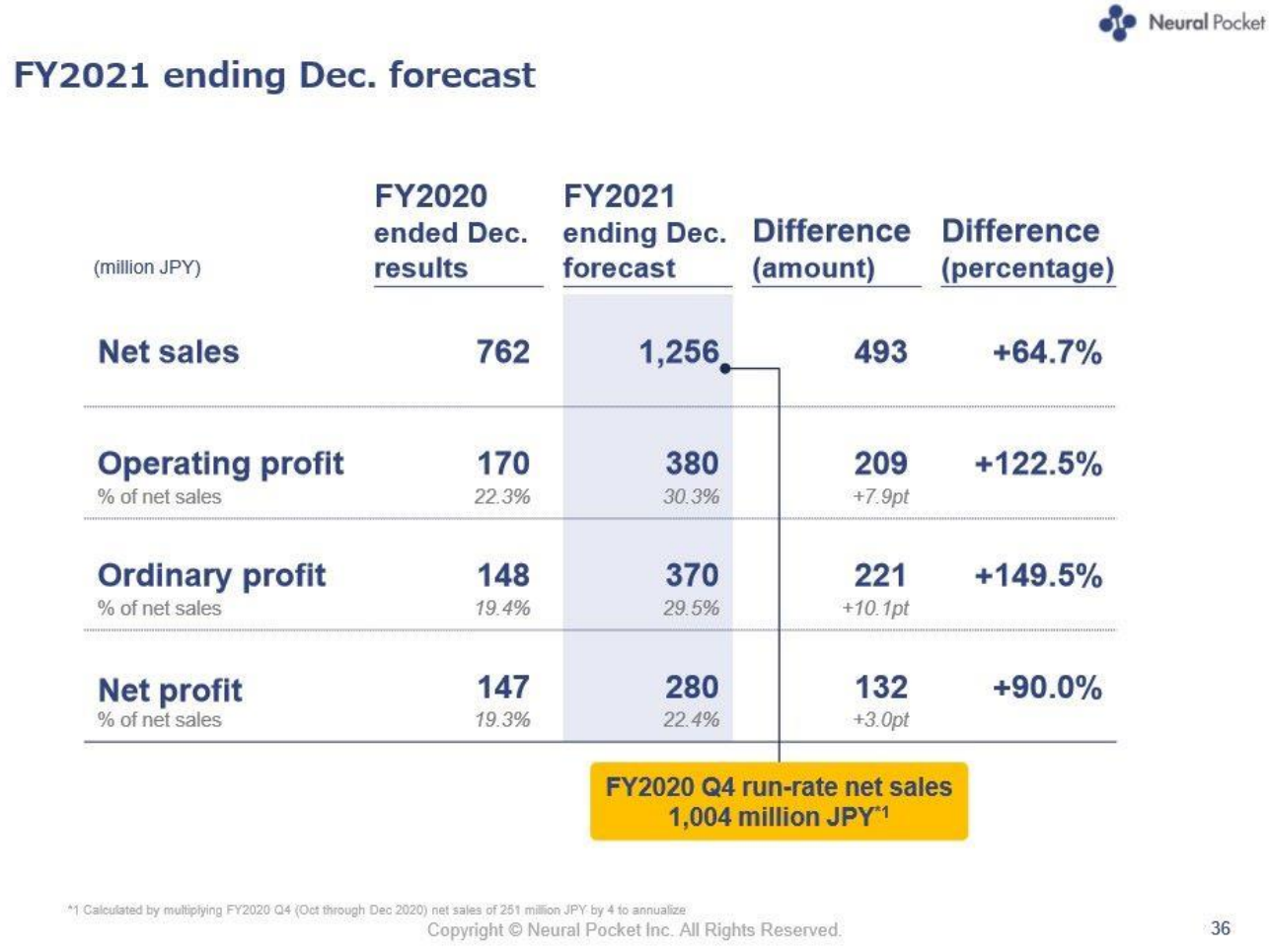
If possible, we hope to realize a business expansion with scale near the timing written here, which says around 2022.

What we mean by business expansion with scale is that there is almost no change in our labor whether it is, for instance, installing 500 units or 10,000 units, in terms of edge devices. The cameras will be installed by the partnering construction company, operation company, or camera manufacturer.

Then, from our perspective, at the timing of being able to install, for instance, 500 units of fine-tuned edge systems, the amount of work is no different from installed 10,000 units of them. There is almost no cost of sales attached to it. There will be a slight amount of usage fees for some system databases. But that will also be limited. In other words, the more we scale, the more economic rationality is created.

Then, we can allocate part of the profits we generated to reduce costs to create AI services with more affordable prices. By doing so, we can create a very good virtuous cycle of even further expansion, leading to a business expansion with scale.

Therefore, by realizing these, and being able to clearly define KPIs and segments, we think it will be a timing in which we would be able to announce a concrete medium-term management plan.



As a result, we are still at the stage prior to the timing of delivering outstanding growth in the fiscal year ending December 2021. Based on what we have on the previous page, we have kept our forecast to continuous growth, rather than outstanding growth.

We forecast net sales of JPY1,256 million this time. The run rate net sales, where we multiply Q4 net sales in the fiscal year ended December 2020 by four, comes to JPY1,004 million, but we aim to achieve the JPY1,256-million target without fail.

Recently, the market has been unstable and unclear, it is still unpredictable whether the Olympics will be held, and there will also be a general election. Considering all those uncertainties, the Company announced this guidance based on the decision that we should keep the sales target at this level for now.

Thank you for your attention. That’s all from me.

Question & Answer

Moderator: We will now move on to the Q&A session. The answers will be provided by both CEO Shigematsu and CFO Tane.

If you have any questions, please raise your hand.

Kobayashi: Thank you for the presentation. This is Kobayashi from Mizuho Securities. I have two questions.

My first question is about how to view the guidance. Regarding net sales, the QoQ growth rate was roughly JPY70 million in Q4. In comparison to this, the sales growth rate in the guidance appears slightly weak to me. Please tell me the background of this. That is my first question. Thanks.

Shigematsu: As for guidance, we show on page 23 the past 8 quarters' growth rate and produced a number along a similar linear trend line. As you say, the growth rate in the third and fourth quarters were solid because of the substantial positive impact after COVID-19 in the latest results. However, we have tried to strip out these one-off fluctuations as much as possible, and have disclosed our forecast based on continuous growth looking at the results over the last two years or so. These are the reasons behind the divergence with the difference between the third and fourth quarters. Mr. Kobayashi, is that fine? Does that answer your question?

Kobayashi: Thank you. Then, I'd like to ask my second question. I what you just stated, you mentioned that the sales growth had been positively affected by COVID-19 in Q3 and Q4. I presume that this means some of the sales are attributed to the gradual contribution from RemoDesk.

Could you please give us a rough idea of how much sales were posted by RemoDesk during the current period? For example, I believe you will be releasing a SaaS version during May, but will this start contributing rapidly from the second half onwards? Please tell me your views on this. That's all.

Shigematsu: Thank you. Regarding the financial results that we disclosed this time and the numbers included here, the sales increase in the third and fourth quarters, as you say, was largely affected by the increased sales for RemoDesk. Although this is continuing up to the present, we are currently viewing the substantial growth of RemoDesk in a limited matter within the forecast for JPY1,256 million.

It's a service that's only been sold for several months, but the server is extremely popular right now, and they are contributing to profits. However, considering the future situation of COVID-19 and the unpredictability of what will happen to remote work, we have incorporated a somewhat moderate growth for RemoDesk in a realistic range rather than including an aggressive target.

Kobayashi: I understand very well. Thank you.

Moderator: Thank you. Next, Mr. Hori of Mizuho Securities, we will unmute you. Please go ahead.

Hori: This is Hori from Mizuho Securities. Thanks. I have two questions.

I understood how you formulated the forecast for this fiscal year, but I think there are various services even when excluding those factors. Aside from whether your level of confidence is factored into this year's forecast or not, I'd like to know more about the current situation whether demand is extremely strong or somewhat weak. If you were to look realistically at the current fiscal year, could you give us the services in the order that they will drive growth the most?

I think this will be based on how it feels qualitatively, but if you were to give a ranking to each of the services shown on page 20 based on the one with the greatest potential for sales growth, what would it be like? That is my first question.

Shigematsu: Sure. This is quite hard to say. That is, as I mentioned earlier, there were sales boosts or delays due to COVID-19 on the services shown on page 20, but the impact of COVID-19 has been contained quite a bit. Overall, there has been a bounce back, and the services that were behind are starting to be operated again.

Given such circumstances, it is extremely difficult to put a ranking on the services right now. All of them have positive news. However, it is difficult in terms of management decisions to determine how much of that good news should be incorporated.

The impact of the good news could still change significantly depending on the effectiveness of vaccine shots, and there are also uncertainties such as whether the Olympics will actually be held or how the Lower House elections go, so it is difficult to comment on anything at this point.

However, none of the businesses are seeing that much stagnation. All of them are seeing improved momentum, and we have taken all of that into consideration in formulating the sales forecast of JPY1,256 million. I don't know if this answers your question, but I would like to give a clearer outlook on the decisions surrounding those matters in the next Q1.

Hori: I see. I assume that each customer has a different timeframe in terms of investments. If the timing is right, then investments could really surge in an unexpected way, but also may not be so. But, if various factors converge, then in the backdrop of the economic situation you mentioned, then that may become a little clearer after Q1. Is that correct?

Shigematsu: Yes. That is to say, this outstanding growth happens in one burst of energy when the hook comes off due to some kind of trigger. Ultimately, the key point is that, for all of these services, there will be a timing when the hook falls off and outstanding growth starts to take place like an avalanche.

We really feel this kind of momentum in all of our businesses, though it is hard to describe this in words. Therefore, the continuous growth is quite understandable if we look closely at it, but when this outstanding growth will be unlocked is difficult to predict especially at this timing, because these are not normal times. When that timing comes, however, we will share it through timely disclosure.

Hori: Thank you. Sorry for troubling you.

Shigematsu: Sorry, it was a difficult question to answer.

Hori: My second question is a little more about the medium-term growth, which you just touched on, regarding the outstanding growth. I think Softbank is currently one of your major sales partners, albeit partly. In terms of being an interface, I reckon that this is a company that probably has a quite firm grasp on corporate customers.

What do you make of this? When outstanding growth takes place in 2022 or later, I assume there would naturally be preparation that starts to be made from around this stage. Do you think your sales partner will be Softbank for some time? Or do you have an image of increasing sales channels slightly in terms of the number of partners? Do you have a rough idea about your plans regarding whether to increase the number after several years?

Shigematsu: There are, in fact, a considerable number of sales partners already. Needless to say, Softbank is an important partner company of ours. But, in terms of sales partners, there are already a considerably larger

number of companies. We will consider disclosing the number of sales partners, as seems to be done by other AI companies, if it is necessary. That said, the number of sales partners is likely far higher than expected.

Generally, I think you can say that there are almost no projects where Neural Pocket conducts sales on its own. Almost every day, we receive several inquiries a day, and a lot of inquiries are received by our sales team every day, so we are in the stage of starting to gradually scale the business by handling those inquiries.

It is not the case at all that we are requesting every single project to Softbank. That said, Softbank is a very important partner of ours, so we intend to continue to build an even stronger partnership with Softbank.

Hori: I see. Then, does that mean there are partners that are not so visible to us, but there are quite few partners for each service, and those sales networks are already sufficiently in place?

Shigematsu: Yes. If we were asked regarding the need to increase partners, perhaps at this point there might no longer be a need to increase partners anymore at this stage.

Hori: That made very good sense. Thank you.

Moderator: Thank you. Next, Mr. Horie, we will unmute you. Please go ahead.

Horie: This is Horie from [inaudible]. First, in the disclosure for the fiscal year ended December 2019, Softbank accounted for 56.2% of sales. How much has Softbank contributed to sales in the fiscal year ended? Also, it says that the contract lasts until October 2020 and is renewed thereafter. Is it correct to understand that this contract has been automatically renewed?

Shigematsu: Yes, it has been automatically renewed, and Softbank sales have continued to increase. I'm sorry, let me check our disclosure policy right now. Regarding the sales weighting of Softbank, we will disclose this later when we issue the securities report, so please refer to it there. The weighting has decreased slightly. The ratio has decreased. However, the overall sales amount has increased, so the amount has increased, but the dependence as shown in the ratio has decreased.

Horie: Second, sales have increased by JPY451 million in the period ended. Please break that down by the ratio of the six areas. A rough estimate is fine. What I mean is the degree of contribution to the sales growth.

Shigematsu: The sales growth from JPY184 million to JPY251 million was largely attributable to an increase in sales for RemoDesk. Also, we won a contract for a smart city project in our people flow analysis used in city planning. These two factors contributing significantly.

Horie: In your forecasts for the next fiscal year, which are the areas of growth that you have factored into the forecast? Is it distributed evenly?

Shigematsu: It will partly be distributed, but some will be offset by people flow, and all kinds of things will be balanced, in our view, so the sales growth from last year will more or less continue, but there is also a large degree of uncertainties, so we have kept it in that range for now.

Horie: I understand. Thank you.

Moderator: Thank you. Next, Mr. Yoneya, we will unmute you. Please go ahead.

Yoneya: This is Yoneya of Eastbay Capital. It is my first time, so I'd like to ask a basic question.

When looking at the Company's cost structure, it appears that the cost of sales doesn't increase at all, even though sales increases. Although SG&A expenses increased modestly this time, please let me confirm in what

areas costs will increase as you gradually expand sales in your future outlook? That is my first question. I'd like to ask one question at a time.

Shigematsu: First, in terms of cost of sales, we in fact conduct almost no equipment sales. Also, camera installation and operations are all outsourced to client companies, government offices, or construction companies, so the license fee of the AI directly translates to our sales.

The items included in cost of sales include internal database costs and costs for some equipment linked to that database. Therefore, the reason why costs do not change much at the timing of an increase or decrease in sales is attributable to our business model, in which this is a natural course of events.

As for SG&A, the majority of this is SG&A expenses. As I stated earlier, SG&A expenses increased due to the uptick in personnel from 25, 1 year ago, to 28, and we also expect a similar number of increase this year. I think estimating our SG&A expenses will probably not be that hard.

Yoneya: Thank you. Second, how far down the road can the Company foresee sales? Around how many months into the future are sales foreseeable? I assume sales at the Company are highly dependent on projects, so do you already have visibility on sales in Q1 based on projects you already have, and about half of that in Q2, but have nothing confirmed at this point for Q3 and Q4? Please give me a rough idea regarding the foreseeability of your sales outlook.

Shigematsu: Sure. I think it's possible to foresee sales up to around one year in the future. That's because most of our services and recurring and ongoing.

There are, of course, no contracts that last 5 years or 10 years, and there are contract renewals as touched on in an earlier question, so part of it cannot be foreseen. However, there have basically been no contracts that weren't renewed up to now. Looking back at the past three years, I think it is quite easy to foresee sales regarding projects that are already underway.

Regarding new projects, these are corporate accounts, so it generally takes about half a year when negotiations begin until the actual introduction. In some cases, many companies take nearly one year.

For companies or government offices, they first create the next budget, apply for that budget, and include a supplementary budget. This is the same for private sector companies, too. Some companies have already included the project in their budget. For example, they might include it in the second-half budget. The timing in which these updated budgets are created differs depending on each company or municipality.

As for business negotiations, we are already in negotiations for projects up to around one year in the future, and we have a long list of a sales pipeline up to around that point. Our sales team manages the budget versus the results while reviewing which projects actually led to capturing the budget, which has been moved forward or backward a little, while keeping an eye on the progress of negotiations, so I think this is something with very high transparency.

Yoneya: Thank you. I think this was in a question made by another person earlier, but I believe that the new number of sales, for instance, of RemoDesk is still unforeseeable at this point, and this could potentially be an upside factor. If possible, could you disclose how many units were sold in the fiscal period ended and how many units you have included in the outlook for the current fiscal year?

Shigematsu: I'm sorry. Disclosing the number of units would be part of the KPI, so please wait a little longer until we disclose this figure. We intend to disclose the KPIs around 2022. These are services that are still young, so we could cause trouble if we were to change the content of the KPI. As such, we do not have plans to disclose the number of units.

However, in regard to RemoDesk, the pipeline includes a very large number of companies wishing to introduce the service, so we are currently working towards the specific maturation of the service.

Essentially, once we are done turning the service into a package at the timing when the number of companies is still low so that we can have various companies introduce it with almost no customization, then it will be a simple process of just having these companies introduce it.

Rather, it is on our side, the engineering side, that will discern the timing in which the service can be introduced, which we will tell the companies currently lined up in the sales pipeline.

That timing, which we aim for an early timing during this year, and which we hope to make a general-purpose version, will be updated on the progress during the results for the first half or later in the future to the extent that can be disclosed, as necessary.

Yoneya: Is it correct to understand that your business currently has about six services, they are basically very easy to expand horizontally, and most of them do not incur costs? For example, I understand the parking lot service and signage advertising can be expanded horizontally without additional costs, even when additional new customers. Is that understanding correct? On the contrary, which are the services that do not fit that description?

Shigematsu: Yes. There are no particular businesses that do not fit that description.

Yoneya: Is this the same for smart cities, too?

Shigematsu: Yes. We ourselves provide AI libraries for smart cities, and other companies are doing the installation of that and other tasks on our behalf. In particular, when the number of smart cities exceed 200 cities, it would not necessarily mean a sharp increase in our sales structure.

Yoneya: I see. Thank you.

Shigematsu: Thank you.

Moderator: Thank you. Next, Mr. Reid, we will unmute you. Please go ahead.

Reid: Thank you for the excellent presentation. My name is Reid from Japan Company Visit Partners. I have two questions today.

First, you mentioned that there are currently 38 engineers at your Company. How many engineers do you plan to hire for this fiscal year and next fiscal year? That is the first question.

Shigematsu: We plan to increase the number this year by around the same as last year. We added 13 people last year, and we similarly plan to hire around 10 to 15 this year. The personnel that we recruited mainly consists of AI engineers, but we think there will also be a few sales personnel. So, I think around 15 would be a rough estimate.

Reid: Okay. Thank you. My second question is about the medium to long term. From the Company's perspective, what kind of image do you have regarding the stable level of operating profit over the medium to long term? For example, what is the image five years later?

Shigematsu: This is a very good question, and we intend to make investments to keep the operating margin around 30% in the near term. But, given that our business model is one in which marginal costs are minimal, five years down the road, when the growth we envision is realized, the level of operating profit is beyond our imagination at this point.

If we were to operate the business, as usual, this number would become extremely high, but I cannot give any specific numbers. I think you would be able to estimate the number through calculation, but if things proceed as normal, it will be high.

Reid: Even a rough estimate is fine.

Shigematsu: Even if we were to give a conservative estimate, this is a business where marginal costs are minimal even when sales increase, so it's difficult to give guidance at this point. My current feeling is that it is going to be extremely high.

Reid: Okay. That's all. Thank you.

Shigematsu: Thank you.

Moderator: Thank you. It is time now, so we would like to end the Q&A session. Thank you for joining us in the full-year financial results forecast of the fiscal year ended December 2020 of Neural Pocket Inc. This concludes the meeting.

[END]