



**Neural Pocket Inc.**

FY2021 Q4 Financial Results Briefing Meeting

February 14, 2022

# Presentation

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**Toyoda:** It is now time, so let us begin.

Ladies and gentlemen, thank you very much for taking time out of your busy schedules to join us today for the financial results briefing for the fiscal year ended December 31, 2021 of Neural Pocket Inc.

My name is Toyoda, and I will be the moderator today. I'm looking forward to working with you.

Today, we will present using the financial results presentation materials disclosed on our IR website on February 10. We will share the screen via Zoom, but if you would like to join us by phone, please visit our IR website to view the materials. In addition, filming, video recording, or audio recording of this briefing is prohibited.

Now, let me explain today's flow. Mr. Shigematsu, Chief Executive Officer, will give a 30-minute presentation on business overview and performance. This will be followed by a question-and-answer session until 1:00 PM at the latest. Both Mr. Shigematsu, Chief Executive Officer, and Mr. Tane, Director, Chief Financial Officer, will answer your questions.

We are using the Zoom video conferencing system today. Please include your name and affiliation in your account name, as this will be used to nominate a questioner during the question-and-answer session.

Please note that your account name and profile picture may be shared with other participants if you participate during the question-and-answer session. If you need to change the settings, please do so in advance.

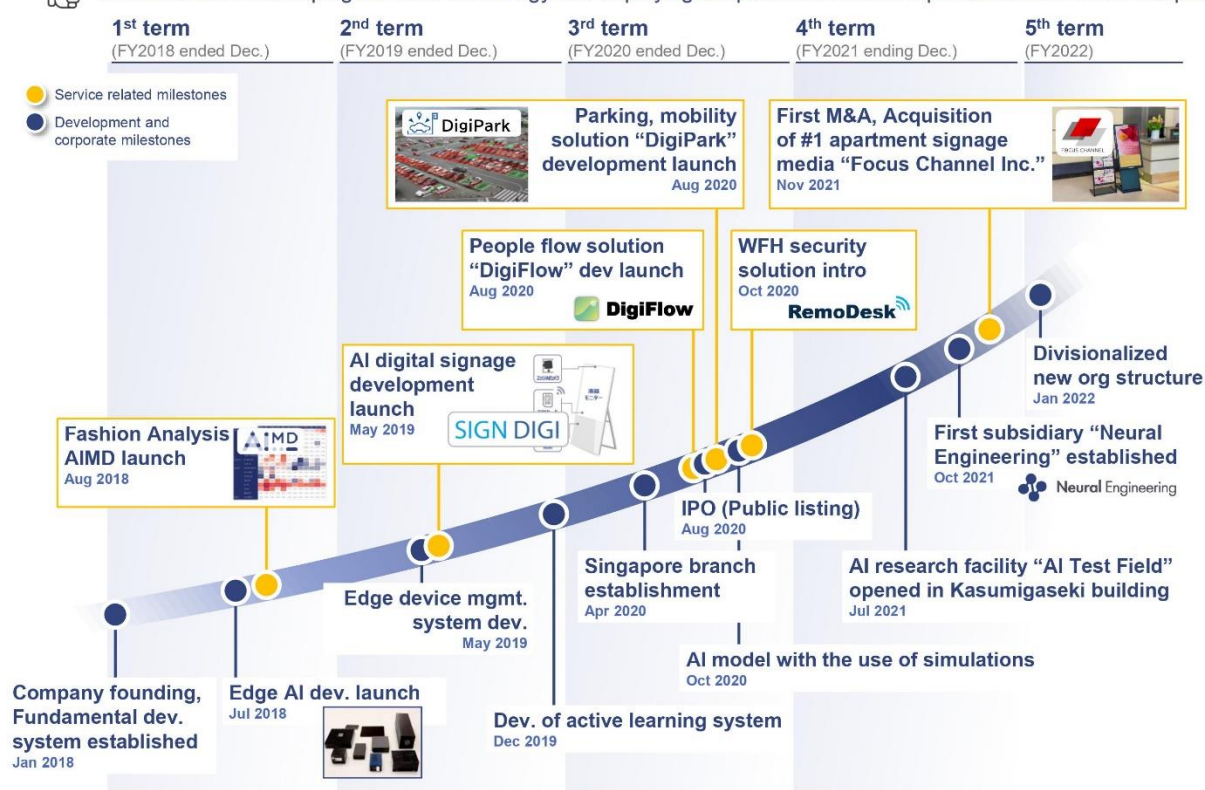
Thank you for your patience. Mr. Shigematsu, Chief Executive Officer will now give an overview of our business and performance. Mr. Shigematsu, if you will please.

**Shigematsu:** Thank you all for taking time out of your busy schedules to participate in the closing. As I outlined in the third quarter, we have made significant progress from the latter half of FY2021/12 to next fiscal year with an eye to growth. Looking back on FY2021/12, I believe that the numbers were surprisingly modest, but the content was very substantial and fruitful.

Today, I would like to explain the highlights of the project.

## History of Neural Pocket

👍 We have been developing our core technology and deploying unique AI services in rapid succession since inception.



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I would like to get straight to the point.

This year, we are entering our fifth fiscal year. As we look back on the fourth fiscal year, there are two notable events worth mentioning: the establishment of Neural Engineering Inc. and the acquisition of Focus Channel, a new addition to the Group in the second half of FY2021/12.

These two are the biggest progress for the fourth fiscal year. As we have disclosed financial result forecast for this fiscal year, we believe that the figures will be strong for this year.

In the fourth fiscal year, we focused on building up organization structure and, strengthening service delivery system that can withstand the leap forward in the fifth and subsequent three-year periods, and on strengthening the quality of those services. For us, it is written on the right side that we will create a corporate structure that will scale from the fifth term onward that we will introduce a divisional system. However, the introduction of a divisional system does not simply mean that we have changed our organization, but that we can incorporate the services that we have created as a division into the Company and organization. To incorporate this into the organization, there must be a leader, a department head to implement it, and a system to actually deliver it to the customer. The actual content is not simply changing the organization at all. I think it was a very fulfilling year in the sense that we were able to implement such a system.

In addition to that, we established Neural Engineering, which is taking large orders from the government and the private sector to implement smart cities. Some of you may have heard about this, we are required to be qualified under the Construction Business Act to take on a project of JPY5 million or more, you need to be qualified. If you don't have a license under the Construction Business Act, you can only receive orders from major general contractors for smart city projects as a subcontractor. However, in October 2021, Neural

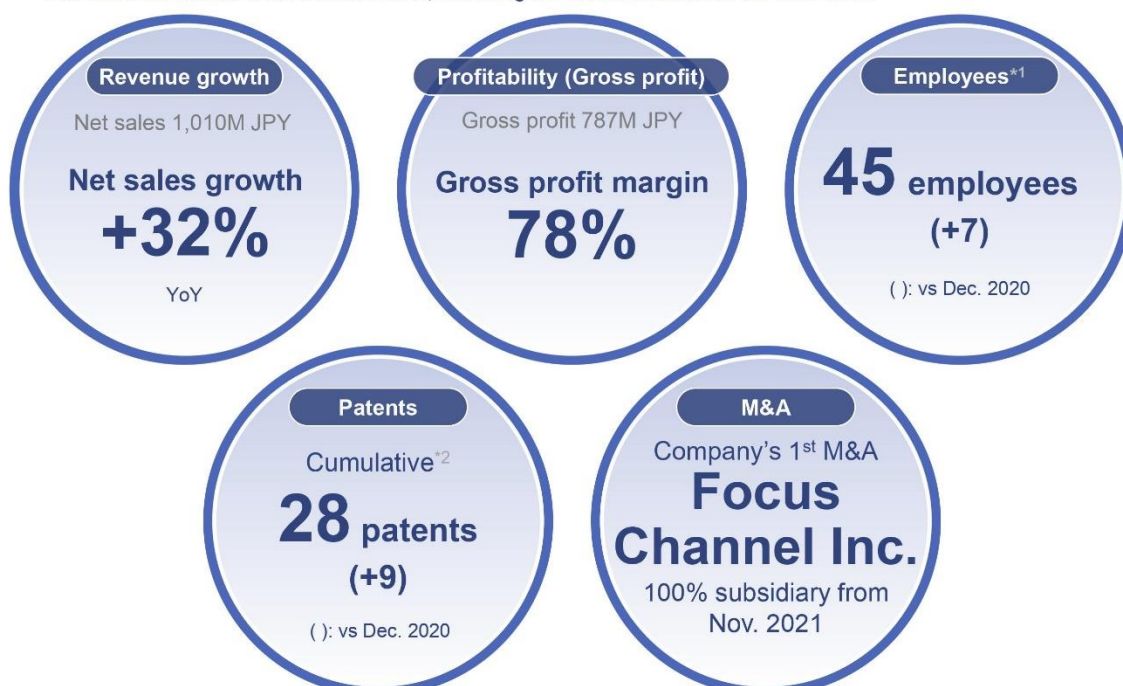
Engineering obtained a general construction business license, and I believe that this was a major step forward in establishing a system that will allow us to directly take on large-scale projects in the smart city business that we are targeting.

I also think that the conversion to a subsidiary of Focus Channel Inc. is very easy example to understand our growth strategy. By acquiring the number one company in condominium signage advertising business, signage advertising service that we had been doing since our second fiscal year, we are accelerating expanding AI advertising signage service. In terms of acceleration, this was seen during the latter half of the fourth fiscal year. Although the figures do not reflect it, I believe it was a very fruitful year for us to make great strides in the fifth fiscal year and beyond.



## FY2021 Q4 key highlights

 Revenue growth continues maintaining high profit margins. In addition, we continue to construct the business's foundation to further scale our business, including the consummation of our first M&A.



\*1 As of Dec 31st, 2021. Does not include executives, part-time staff, interns. Also does not include wholly owned subsidiary Focus Channel Inc.  
 \*2 Total of i) granted 15, ii) applying domestically 9, iii) applying internationally 4.

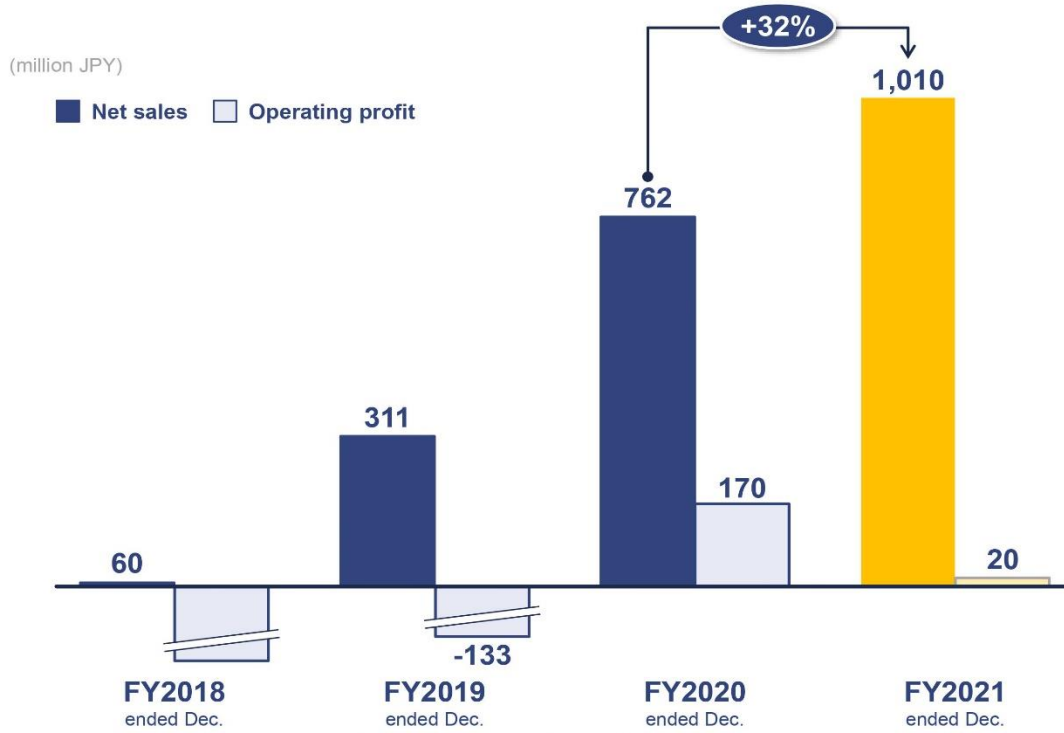
Next. This is the highlight of the numerical side.

For the fiscal year ended December 31, 2021, key highlights were as follows. The sales increase of 32% was modest compared to the increase from the third to the fourth fiscal year last year, but the important points are what I mentioned earlier. Then there's profitability. The gross margin ratio was roughly 70% to 80%, which is a unique high rate for such an AI company. We would like to continue to maintain this high level of profitability.

We have not increased the number of employees much. This has been discussed in our disclosure since we went public, but rather than unnecessarily increasing the number of employees, we are trying to improve the quality of the employees and build up the ability of each individual to manage the Company. In terms of the abilities of the members who were here two years ago and the members who are here now, I feel that they have all changed over the past year or two. The patent has made some progress.

## FY2021 ended Dec. performance trajectory

👍 Achieved +32% growth annually, as we transition from a fee-based revenue model to a unit-based model.



## FY2021 ended Dec. results and difference from forecast

 Invested progressively to achieve further growth in FY2022. To accelerated growth in FY2022, forewent a portion of fee-based sales in Q4 withing the range of remaining in the black.

(million JPY)	FY2020 ended Dec. results	FY2021 ended Dec. forecast	FY2021 ended Dec. results	Increase Amount vs f/c	Increase Percentage vs f/c
<b>Net sales</b>	<b>762</b>	<b>1,006</b>	<b>1,010</b>	<b>+4</b>	<b>+0.4%</b>
<b>Gross profit</b> % of net sales	<b>170</b> 22.3%	<b>16</b> 1.6%	<b>20</b> 2.0%	<b>+4</b>	<b>+26.1%</b>
<b>Ordinary profit</b> % of net sales	<b>148</b> 19.4%	<b>11</b> 1.1%	<b>13</b> 1.4%	<b>+2</b>	<b>+24.1%</b>
<b>Net income</b> % of net sales	<b>147</b> 19.3%	<b>9</b> 0.9%	<b>11</b> 1.1%	<b>+2</b>	<b>+25.2%</b>

## FY2021 ended Dec. results and YoY comparison

 Achieved steady revenue growth with high gross profit margins, as we transition away from a fee-based revenue model to a unit-based model.

(million JPY)	FY2020 ended Dec.	FY2021 ended Dec.	Increase Amount	Increase Percentage
<b>Net sales</b>	<b>762</b>	<b>1,010</b>	<b>+247</b>	<b>+32.4%</b>
<b>Gross profit</b> % of net sales	<b>669</b> 87.8%	<b>787</b> 78.0%	<b>+117</b>	<b>+17.5%</b>
<b>EBITDA</b> *1 % of net sales	<b>202</b> 26.6%	<b>112</b> 11.1%	<b>-90</b>	<b>-44.6%</b>
<b>Operating profit</b> % of net sales	<b>170</b> 22.4%	<b>20</b> 2.0%	<b>-150</b>	<b>-88.2%</b>

\*1 Earnings before interest, tax, depreciation, and amortization

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Next, as I mentioned earlier, the figures show an increase in revenue and a decrease in profit.

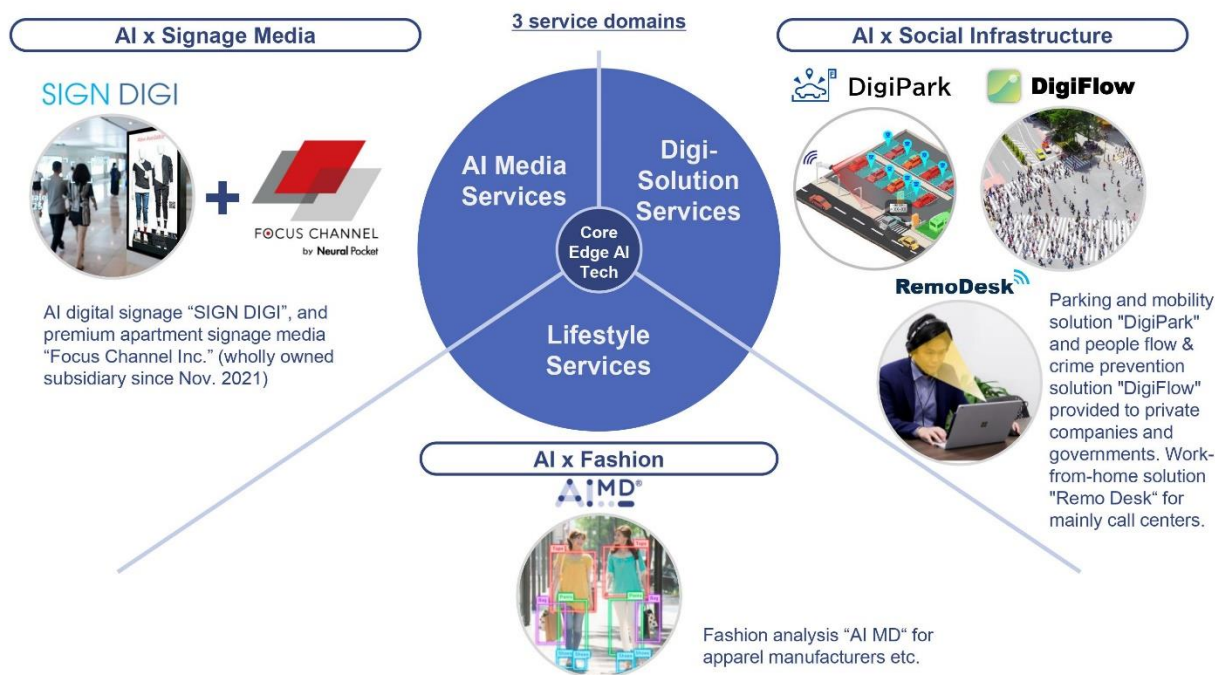
We are told that profits have been declining, but we expect dramatic growth in the next three years, and in the fifth, sixth, and seventh fiscal years. We are actively investing in human resources to realize these goals, as well as in smart cities related to AI, some of which are included in the cost.

Although we don't concern short-term earnings, or short-term earnings in the ultra-short term, the result was an increase in revenue and a decrease in profit in that sense.



## Applying edge AI technology to 3 domains to create unique value

👉 We are enabling a more convenient society through applying our core edge AI technology to three service domains



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These three domains were introduced in the third quarter results. I believe that we have been able to materialize this project in the Company, including the organizational aspects.

The top left is the AI media service, which is an area where AI is deployed in signage media. The upper left corner shows the area where we will accelerate the development by combining the signage of Neural Pocket, which we had been working solely on, and the aspect in condominiums that we have acquired through the participation of Focus Channel.

In the upper right, you can see how AI will be applied to social infrastructure. In general, the world's most obvious smart cities and AI, the world's main battlefield, are in the upper right corner. This also applies to so-called parking lots, and also to the flow of people and crime prevention in the city.

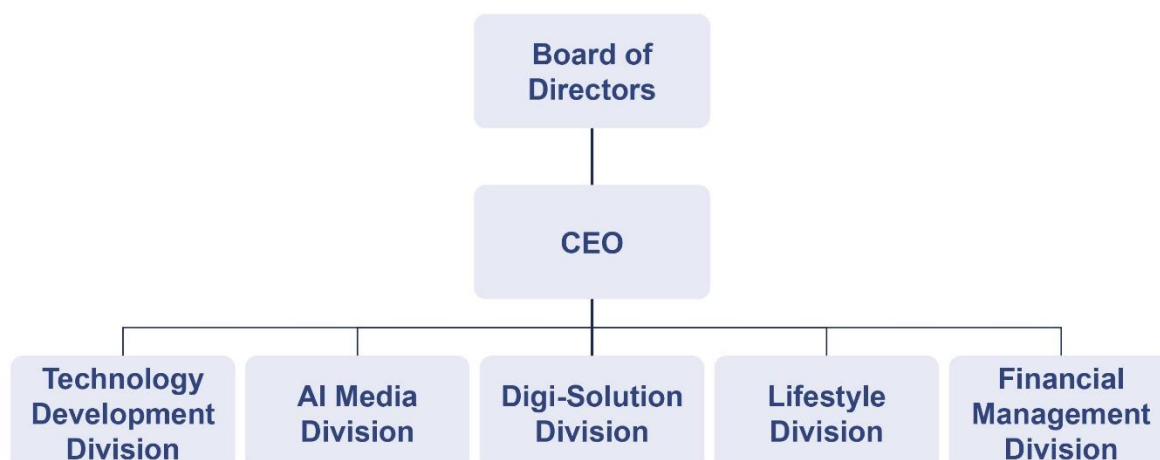
We also have the RemoDesk, which has been available since the end of the year before last. This is a way to support employees at home, and we have been able to provide safe and secure telecommuting by watching the expressions of the operators and employees in front of us through the camera on the computer. In terms of response, I think we're finally starting to see a reaction here. There have been sales in the past, but with the shift to home-based work finally becoming more common in society, I think it would be better to pursue an appropriate level of work comfort even when working from home. We believe that there is a consensus in society that people will continue to work at home for a long time, and in this sense, we, together with Digi-Solutions, have commercialized these three businesses with AI and social infrastructure.

The third is in fashion, which we have been doing since our founding, and we are applying AI to the fashion domain, which we call Lifestyle Services.



## Introduced divisionalized organization effective from Jan 2022

👉 Introduced org change starting Jan 2022 to allow for each of our three services, “AI media services” “Digi-solution services” “Lifestyle services” to pursue scale independently. We have also appointed 4 new executive officers as we introduce the org change.



In this context, as mentioned in the timely disclosure in January, we have introduced business divisions structure from this year as I mentioned earlier, which has enabled us to organically link the three areas of the Company while at the same time establishing a system that allows each of them to operate independently.

This is the Technology Development division on the far left, and this is the AI engine. You can think of it as the so-called center of the diamond. AI technology is one of the strengths of our company, and this is the central part of creating the world's highest level of AI. In Coca-Cola, it's used to make the undiluted liquid for Atlanta. This is where the undiluted cola is made.

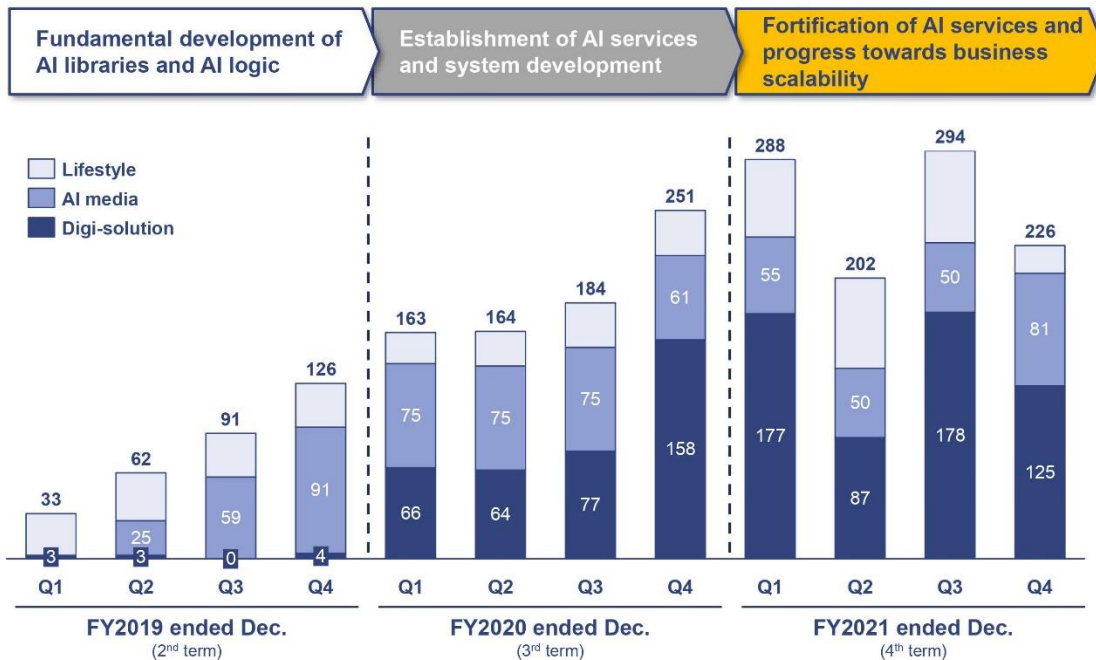
Next in the middle is the AI Media division, which oversees the condominium signage business area I mentioned earlier.

This is the Digi-Solutions division, which covers the three areas I mentioned earlier. It encapsulates parking lots, a human flow, and also RemoDesk.

Lifestyle division is apparel. We are currently considering other lifestyle areas as new businesses, but there is nothing to announce at this time. The Financial Management division is responsible for creating such a structure, and this division is responsible for developing and implementing appropriate capital policies and M&A strategies that will become the core of our company.

## Revenue trajectory per service domain

Since inception, the company has achieved steady sales growth whilst promoting the development of various seed technology that constitute our 3 service domains. Through FY2021 we have selectively promoted activities to evolve these seed technologies into scalable businesses.




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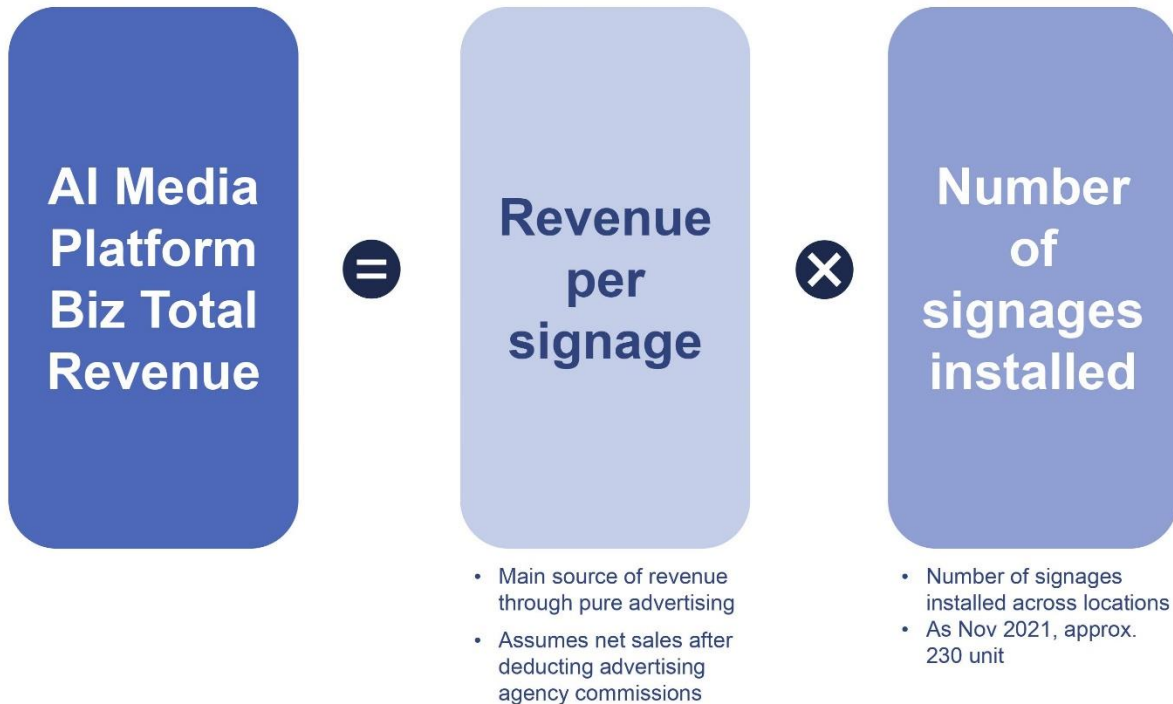
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As for the sales trends for each of the three domains mentioned earlier, they vary from period to period. In the fourth fiscal year, we have been promoting our business by making selective choices, and as I mentioned in the third quarter, there are some bumps in the road. Importantly, each of these three businesses has been growing in a balanced manner to some extent, and I feel that this is a good response to our efforts in the fourth fiscal year.

The small hiccups in each period are not very important, so it is better to look at the whole year.

## Revenue drivers

 Revenues are based on advertising revenue, which can be broken down into revenue per signage, multiplied by the total number of signages installed for KPI management.



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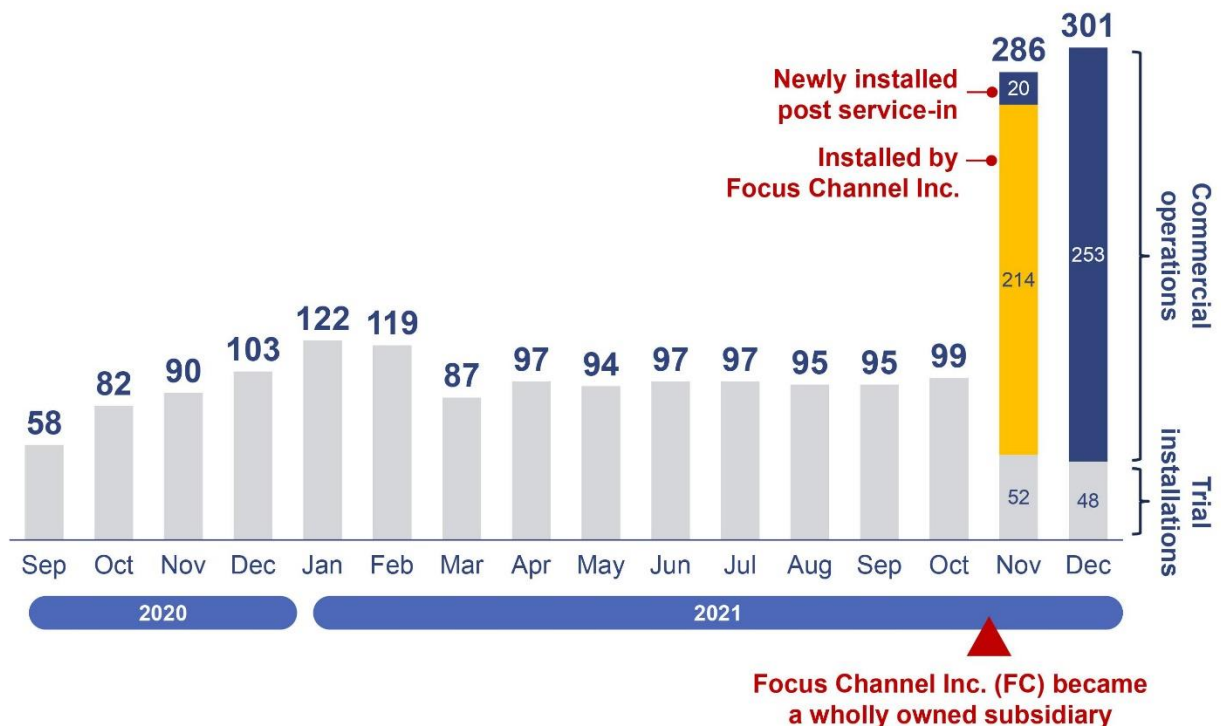
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I would like to present a business report on AI Media services.

First of all, here is the signage installation unit. This business is very simple: simply multiply the number of units installed by the sales per unit, and you will get the sales. It is important to install such signage and to fill the advertising space in the signage.

## Digital signage units installed to date

👍 In addition to the official service-in of existing digital signage operations starting Nov 2021, the consolidation of Focus Channel Inc. (FC) has led to an increase in instated units.



On page 34, you can see that the number of installation areas has increased to 301.

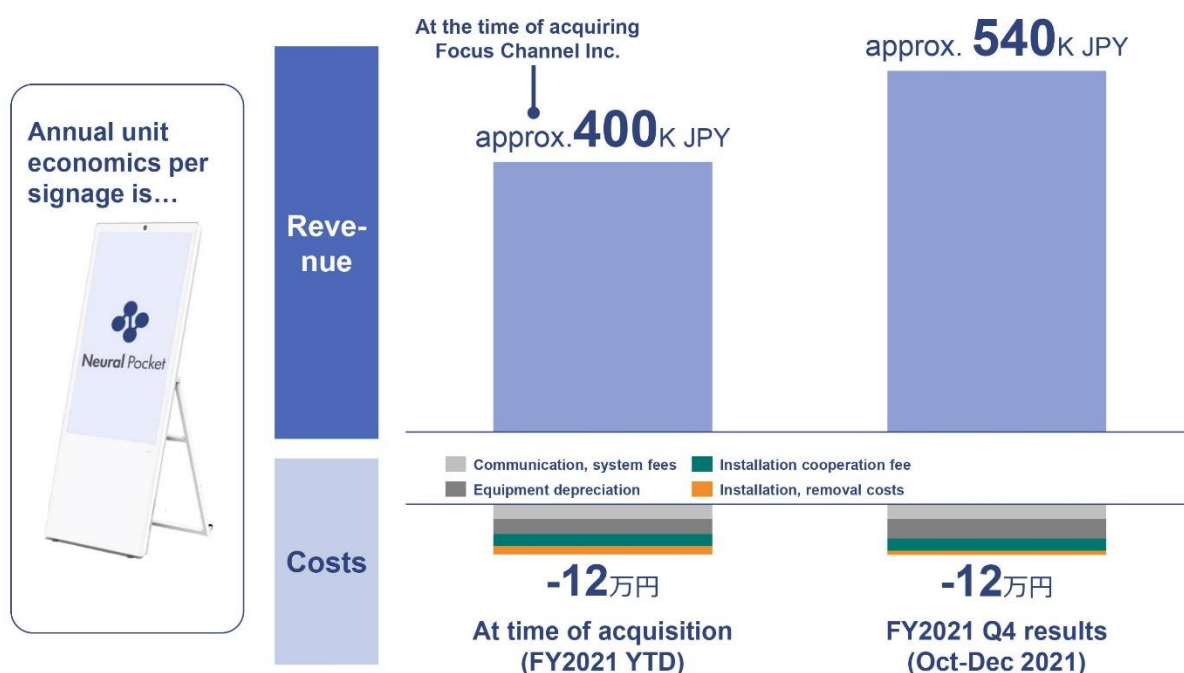
We made Focus Channel a subsidiary on October 22, and in November, we were simply conducting PMI immediately after the acquisition, but from December onwards, we immediately started implementing the 100-day PMI plan, and the number of condominiums installed is steadily increasing.

The blue area underneath, which we have been working on since our founding, is POC through partnerships with major companies. Although there has been a slight increase and decrease in this area, the condominium signage that we are implementing is essentially the upper part of the color chart. This can be seen under commercial introduction. We believe that we are doing very well here.

I'll skip this one.

## Per signage annualized unit economics

👍 As for revenue per unit (= digital signage), there is an opportunity to increase sales. On the other hand, costs are relatively fixed, the profit ratio is expected to improve as sales per unit grows. Improvement in profitability at the unit level already achieved post acquisition.



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I was talking about the number of units x unit price and the unit price per unit is as follows.

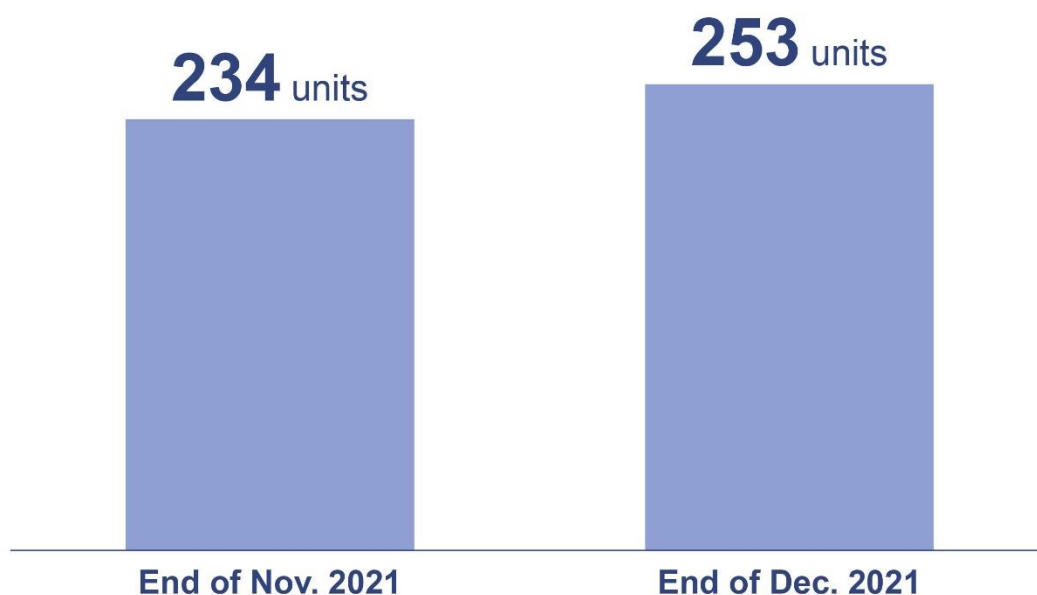
This is the revenue per unit at Focus Channel, as of the acquisition of Focus Channel on October 22. Sales are basically all advertising income, and revenue per unit has been increased from about JPY400,000 to JPY540,000 by the ended December after the acquisition.

As for this one, the pure reason why it will increase is simply because it will increase the rate of ad placement, which is why it has been included in our group. Neural Pockets' customers are the same way, and I think the fact that our relationship with our distributors has become very strong is rather significant. I think it's great that almost all the major advertising agencies are now working on with us.

The advertising business, as I'm sure many of you know, is quite varied in terms of when companies want to advertise. In addition, it is often the case that when media owners like us advertise directly, first pass yield tends to be quite poor. However, by inviting a wide range of advertising agencies as partners, we have been able to create a very wide spider's web in this area.

## Signage installation progress

👍 We aim to expand the business by installing 2,000 units in high-end apartments and office buildings, mainly in the Tokyo and Kansai area by the end of this year. In doing so, we will be creating one of the largest outdoor advertising media in Japan.



The number of units is 234, as I mentioned earlier. At the end of November, just after the acquisition, we had advanced about 20 units in a month.

Next, is Digi-Solutions.

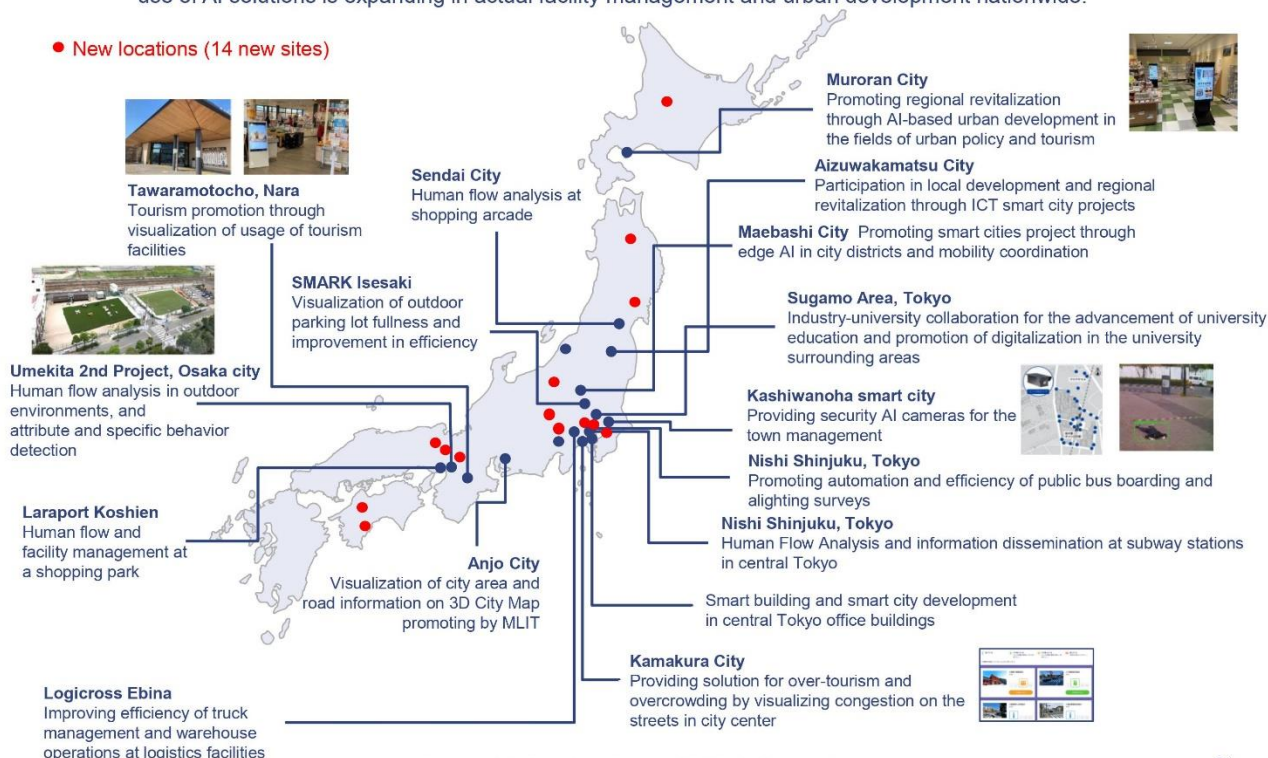
In the first half of last year, many customers who were planning to introduce a small number of Digi-Solutions used it to see if it would really be useful for parking lots, foot traffic, and crime prevention. In the first half of the year, there were many customers who used the system. Since the latter half of last year, we have seen an increase in the number of cases, and I feel that there has been an increase in the number of horizontal deployments of the systems installed so far.



## Digi-Solution Services are being installed across many sites

👍 The introduction of AI solutions for both private and public sectors are progressing in many areas, and the use of AI solutions is expanding in actual facility management and urban development nationwide.

● New locations (14 new sites)



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This is the installed base in Japan that we have been disclosing for some time now, and I believe that the installation of these Digi solutions has increased dramatically in the latter half of last year. The explanation is that this is not a demonstration experiment but a commercial introduction and after using the system commercially, we actually received good feedback from citizens and consumers, or in the case of the private sector, from consumers and people in the vicinity. So, there were horizontal connections.

For example, this red text in the upper left corner says Michi no Eki. There are about 1,300 Michi no Eki in Japan, and last year and the year before, we had several Michi no Eki, maybe two or three that you can count on one hand, that people used them all the time. There are various liaison groups of Michi no Eki, and I mentioned in the last financial statement that we have received inquiries from them through various introductions. That's [Inaudible] how the actual number of installations has increased.

## Our vision for business growth

👍 We have pursued our business growth vision since being publicly listed. We are aiming to achieve accelerated scaling of business starting from this fiscal year



This is page 67.

This is our mid-term strategy, which we have been using consistently since our listing. We had always explained that we would make a leap forward from around 2022.

If you look at the bottom of the page, you will see that we have always said that we will continue to create businesses from our founding in 2018 until we go public. In regards to business creating, until right before we went public, we had been working on, first of all, building corporate platform, identifying value proposition, developing services, and creating the seeds of services. What we have been doing for the past two years since we went public has been to deepen our business model.

I've come to understand the social issues, but I'm rather wondering if the quality is good enough to deal with those issues. In the end, artificial intelligence is often said to be of poor quality, inaccurate, or to break down quickly after use, but it is capable of stable 99% operation and detection 24 hours a day, 365 days a year.

In fact, we have devices that are compatible for five years and devices that are compatible for seven years, and we have been working for about a year and a half to develop them into services that will continue to work for five years and for many years.

In terms of business partnerships, before we went public, we were rather dependent on several large companies. We were supported by such companies and still are. As a result, many were quick to point that out and would ask if we were truly a company capable of self-dependency. For this fiscal year, we are aiming for a dramatic increase in sales, and I believe that we have achieved what we have been trying to do until last year, which is to establish a system that can be accepted by a wide range of customers.


In terms of defining the business segments, I feel that we have reached the point where we can actually organize the three divisions and business headquarters that I mentioned earlier.

In terms of KPIs for each business, we have been able to set KPIs for the number of units and unit price, and I believe that we have been able to go as far as having progress management of the actual results, which was the specific target for the number of units.

After that, although it is written that it will be around 2022, we have actually released a three-year plan for the latter half of this year. Our goal is to increase our sales by 25 times this year's level in the next three years. We are aiming for a four-fold increase this year, 11-fold next year, and 25-fold the year after that. I believe that we have been able to establish a system to become one of the top three AI providers in Asia within three years.



## Revisiting management policy from FY2021

 For FY2021, business is being promoted with focus on prioritizing the deepening of the business model and the completion of services versus short-term sales growth. As a result we are establishing a system aimed towards the expansion of sales for generalized services/ solutions.

### From fee-based to unit-based sales

**In addition to expansion through individual contracts with companies/ governments, we aim to accelerate sell-propelling sales from generalized services**

#### **【Theme 1】 Expansion of co-creation partners**

Expand required elements such as sales, maintenance and support, and bidding rights for government through partnerships or mergers and acquisitions as needed.

#### **【Theme 2】 Towards easy-to-use AI services**

Pursue ease-of-use of services designed around customer needs.  
Aim to achieve 10,000-unit service system, with high AI service quality and operational stability.

#### **【Theme 3】 Commitment to AI technology dev.**

Collect and accumulate the industry's leading level of data.  
Continue to invest in the dev. of optimal AI logics using proprietary learning technologies, including CG.

Here is a look back at the fiscal year in 2021. The theme we have been talking about is the shift from fee-based to unit-based.

What this means, as is written below, is the expansion of sales through individual contracts with companies and governments. It's a great thing to receive several JPY100 million in sales from one major company, but that's not what Neural Pockets is aiming for at all. The AI will be used in society on a rather broad unit basis. Rather than using it as a demonstration experiment, for example, installing it in one location for a demonstration experiment and receiving several JPY100 million, we have been trying to reduce the unit price to a level where it can be purchased by society, and instead increase the number of units.

In other words, we have been working on a business model where generalized services can run on their own and expand sales, as described in the second line.

## Trajectory of fee-based vs unit-based sales

👍 Since the completion of AI services in 2021, unit-based sales growth (+138% annually) has surpassed fee-based sales growth (+53% annually). In light of the establishment of an accelerated growth plan for 2022 and beyond, some fee-based projects for Q4 have been foregone or postponed and internal resources have been allocated towards the development of in-house services.



\*1 Compound annual growth rate.

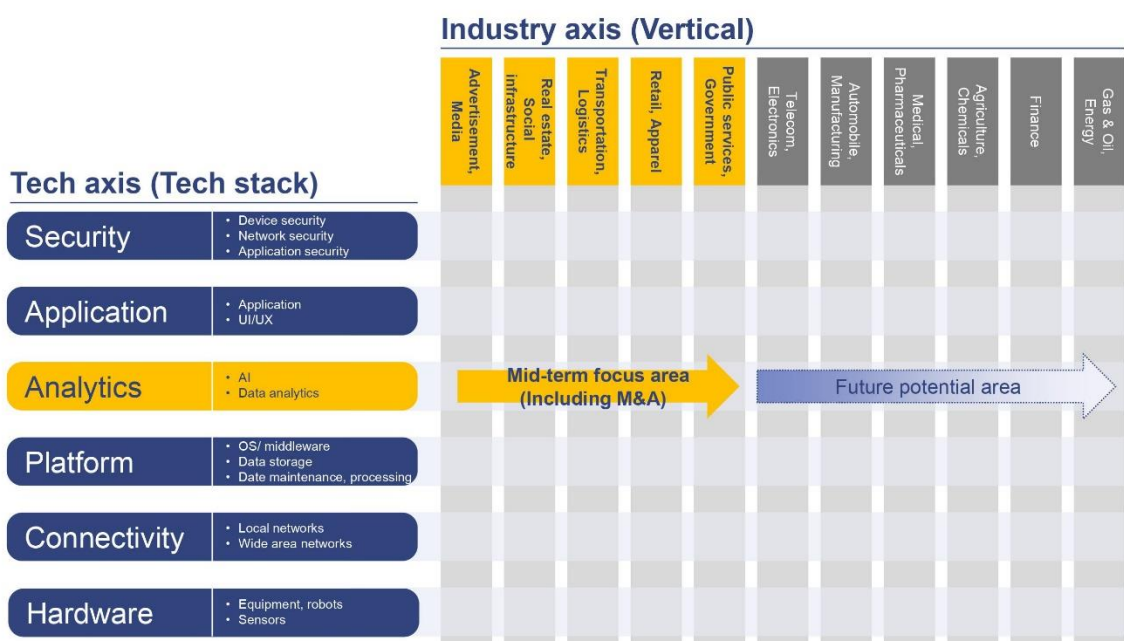
On page 70, I would like to show you how far the composition ratio of unit-based sales has risen, but I think it has become roughly [Inaudible] in the fourth quarter.

For this year, we have not yet finished journalizing the figures, so we cannot release them yet, but we believe that the majority of sales will be based on this unit basis.



## Direction of business growth leveraging business characteristics

Characteristics of AI companies that originate from the technology axis, is that they can readily expand services and execute M&As across industries, to then become comprehensive AI service providers. In addition to organic growth, we plan to proactively pursue opportunities in peripheral areas that can accelerate our core business and also progressively consider acquisitions of companies that are ahead of us in such verticals.



Finally, one of the key areas that we must focus on in this three-year plan is the direction of growth that takes advantage of our business characteristics, and I believe that we need to make aggressive investments including M&A.

We talked about this in the last financial report. There are two types of companies and I will mention them again because they are important. One type of company is a player that fights on the axis of technology, much like Tech Stack. This kind of company uses one of the layers of technology as its strength and deploys it across industries. That is the type of company that we are.

There are many players fighting on the axis of industry. This is exactly what SaaS companies do. For example, they select one industry, such as real estate, advertising, or transportation, and apply their services to that industry. This is an easy way to understand social contribution, right? So that's the one that is usually chosen. With this perspective, even an artificial intelligence company with a technological axis has its goal clearly set out. However, as a company that makes engines for artificial intelligence, we have to think about how we can expand the engine horizontally to the industry and we have to shift from a fee-based to a unit-based approach as I explained earlier. In addition, we have been saying that it is important to proactively embrace areas where we have the customer base and sales network.

Focus Channel was not that big in terms of sales at the time of acquisition, but I think it is very easy to understand as an example. You may say that the number one company in the condominium advertising field and its 200 or so dozens of pages are not many, but it does not change the fact that it is the number one company in this field. This was acquired with that in mind. In response to this, Neural Pocket has introduced its AI engine, signage hardware, advertising distribution system, and CMS technology, which have been strengthened and are now growing in sales. When we acquire these existing aspects, it may be easier to say

that AI is actively applied to them in a macroscopic way, but the speed at which society applies AI is, let's say, not that fast.

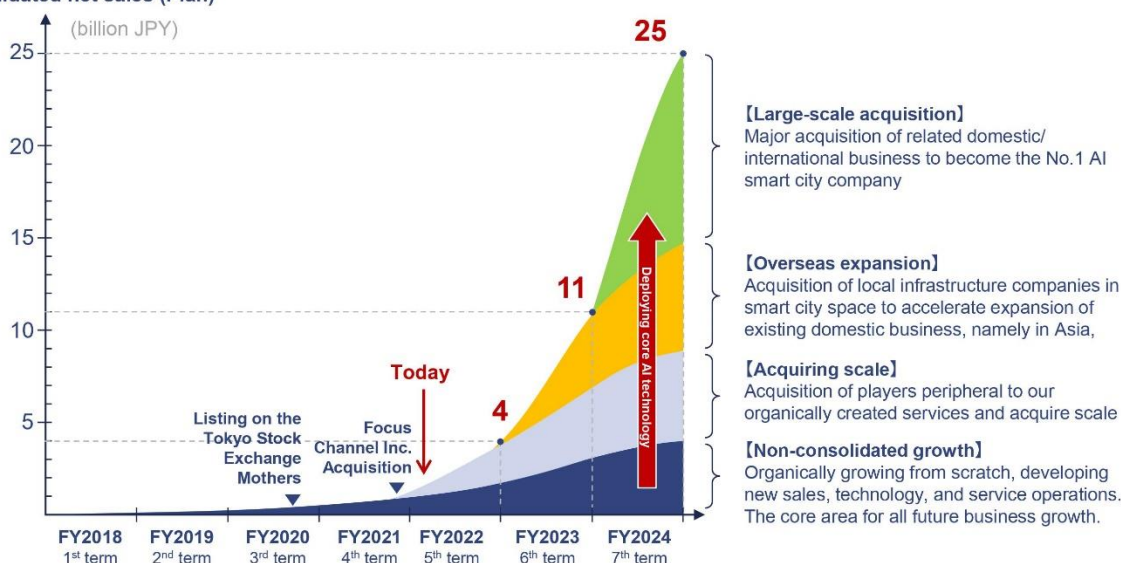
So, there is no need to wait for the speed at which society embraces AI. Our future growth strategy for Neural Pockets is to take a proactive approach to AI and to accelerate the process as quickly as possible.



## 3-year business growth target

👍 We aim to achieve growth by leveraging our core edge AI technologies and services, and acquiring related services in Japan and overseas in an orderly manner. On Nov. 1, 2021, we consummated our first M&A through the acquisition of Focus Channel Inc. In addition to organic business growth, we plan to execute roughly two M&As per year creating synergies that will contribute to business expansion.

Consolidated net sales (Plan)



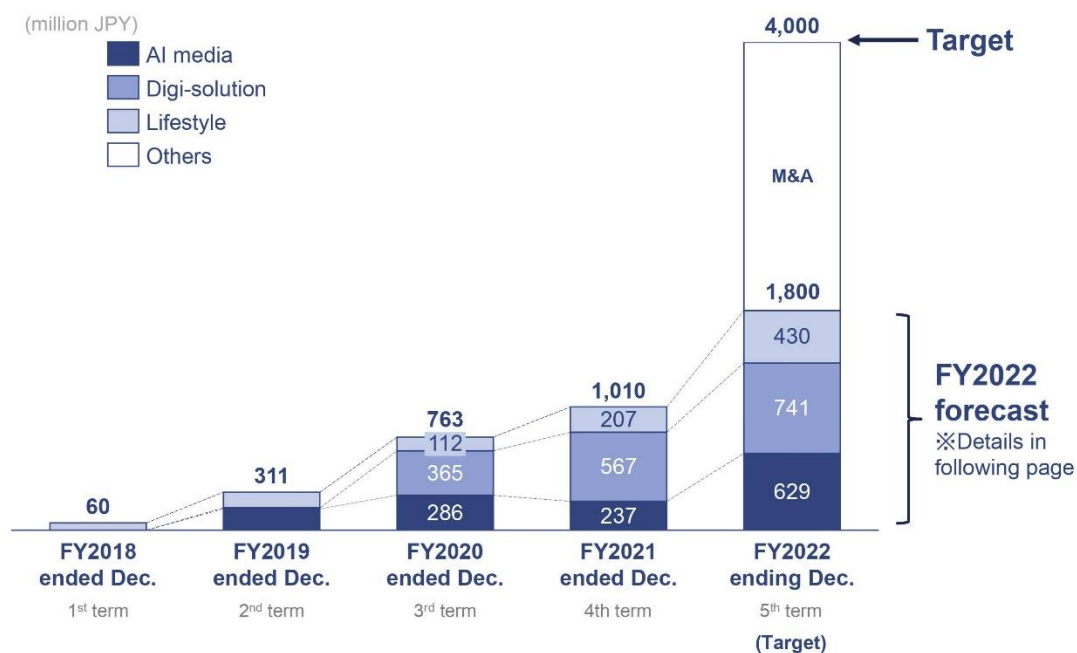
Here is the three-year plan. This is our mid-term management plan. This year, as of now FY2022 has just started, and the business sales target here is JPY4 billion.

As for profits, we are going to invest more and more upfront, so we are going to invest aggressively within the scope of the surplus. Next year, the next one will be JPY11 billion, and the one after that will be JPY25 billion. This is a definition of area-based sales, so I believe the actual run rate will be higher, but we are working with [Inaudible] because we believe that doing things at this speed will mean that we have a presence in society.



## Aiming for sales growth: Plan for FY2022

👍 In FY2022, we aim to quadruple the size of our business. In addition to organic growth, we plan to enlarge existing operations through rolling up similar, related competing companies through M&As.



This is the actual, short-term management plan for this fiscal year. As for the three business domains I mentioned earlier, I think the composition of sales will be as follows.

Let's just say this is an existing area. This amount is JPY1.8 billion. We are aiming for JPY4 billion by aggressively implementing M&As.

## FY2022 ending Dec. financial forecast

 Forecasting +78% organic growth mainly through unit-based sales growth

(million JPY)	FY2021 ended Dec. results	FY2022 ending Dec. forecast	Increase Amount YoY	Increase Percentage YoY
<b>Net sales</b>	<b>1,010</b>	<b>1,800</b>	<b>789</b>	<b>+78.2%</b>
<b>Operating profit</b> % of net sales	<b>20</b> 2.0%	<b>20</b> 1.1%	<b>-0</b> -0.9pt	<b>-0.9%</b>
<b>Ordinary profit</b> % of net sales	<b>13</b> 1.4%	<b>5</b> 0.3%	<b>-8</b> -1.1pt	<b>-63.4%</b>
<b>Net income</b> % of net sales	<b>11</b> 1.1%	<b>2</b> 0.1%	<b>-9</b> -1.0pt	<b>-82.3%</b>

Forecasts could be revised in the future upon M&A activities etc.

This is the breakdown. We have kept operating income low, but this is because we are a company with a very high gross profit margin, so operating income is determined by how much we invest in SG&A expenses. At this point, I am not sure that producing short-term operating profit will meet your expectations. We are considering these areas, but there is no need to waste money on unnecessary costs in these areas, so although there may be some changes in operating income, we think it is important to firmly implement sales first.

There are various disclosure policies and guidelines, and we thought about how much we should disclose, but basically, we are only disclosing our current forecast of JPY1.8 billion.

We have separately set a performance target of JPY4 billion, but we plan to promptly report on this in a timely manner in the event of an M&A transaction, so please wait for news.

Yes. That is all.

## Question & Answer

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**Toyoda [M]:** We will now move on to question-and-answer session. Mr. Shigematsu, Chief Executive Officer, and Mr. Tane, Director and Chief Financial Officer, will answer your questions.

If you have any questions, please let us know by pressing the raise hand button in Zoom. We will nominate you in turn. Please unmute yourself and tell us your name and affiliation before you speak.

Please limit your questions to two per person. If you have any questions, please press the raise button. Now, Mizuho Securities Co., Ltd., Mr. Kobayashi, please unmute and speak.

**Kobayashi [Q]:** Thank you for the opportunity to ask my question. My name is Kobayashi of Mizuho Securities. Two questions from me. The first big one is a question about the signage business. First of all, the target for this fiscal year is 2,000 units of signage at the end of the fiscal year. I wonder how much you have achieved so far. And about the unit price. I have the impression that the unit price here has been rising steadily over the past three months, but in this regard, what is your evaluation of the current level of this unit price? In addition, I would like to ask the first question about signage to what extent this unit price upside can be expected.

**Shigematsu [A]:** The 2,000-unit base has only been in operation for a month, but in terms of business performance, it is on a curve. However, since we are still talking about the future, I don't want to say that we can do it or that it is certain at this point, but the response may be as we expected or even better than we expected. I'm hoping to get good feedback from the apartment side.

So far, I'm on board with the projections. We will announce the progress in this area in the next financial results, but what is actually happening is that the focus segment has always been 220, 230. We've been running this for a long time with the same number for years. However, in the past month or so, we have visited almost all of the condominiums, save for one or two that we were not able to visit, we have visited them, and when we proposed the installation of the system, there were almost no companies that said they did not want to install it.

On the contrary, what we are doing now is that when we install the system, for example, if it is rented, we are talking about where to put it with the rental company. In the case of condominiums, there is a board of directors for each unit, so we have been working for about a month to create an operational process to explain the process to the board. As to where we currently stand, we are on the curve of the 2,000 target units.

On the other hand, we have been discussing this within the Company, and although we have not disclosed the KPIs, the unit price is actually quite different depending on the number of units, as well as on whether the condominium has about 500 rooms or 50 rooms.

Our business goal is to install 2,000 units with roughly 70 rooms per unit, but if we can get one unit with 300 rooms, that would actually be about the unit price and value of four units. What actually attracts advertisers is not the number of units, but the number of rooms that can be reached and the number of residents, so we are not sure what kind of number we should use as a KPI disclosure. In terms of the number of units, it's around the planned curve, but in terms of the actual number of residents, it's a bit higher. The one unit is a long one, so I will explain about this in the financial statements in the future. At this point, I don't really have anything to worry about.

As for the unit price, it varies a little. I mentioned that the average is JPY540,000 per month, but in good months it is about JPY700,000, and it varies depending on the season, so there are no very bad months right now, but I am still not sure how much we can expect to increase. In a good month, for example, March is the

end of the fiscal year for many companies, and they often receive an extra budget for the end of the fiscal year, so there is a big increase. As for January and February, coming off the Christmas season, they tend to be leaner. I believe that the area is varied and totally different from period to period. Once the situation becomes more settled, we will disclose the figures in a timely manner, and I believe that the future outlook for unit prices will become a little clearer.

**Kobayashi [Q]:** Thank you very much. With regard to the second question, I would like to ask you about the services that you have in mind for the current fiscal year, and in terms of image, which are the areas that you are particularly looking forward to. That's all from me.

**Shigematsu [A]:** Let's see. Digi-Solutions, it's pretty much the full range. In the case of Digi-Solutions, as I mentioned earlier, DigiPark and DigiFlow will continue to operate, and there are also quite a few RemoDesks, so we have a balanced budget for this area. However, we are working on the budget based on what we have been quoted, so for the time being we have a good balance in the short term. I'm sorry, it's a little hard for me to answer right now too.

Somehow, I feel that it comes in a pretty balanced way. You can put both of them together from the same place, or you can put both of these plans together. There might not be many RemoDesk running, but we have a good number of DigiPark and DigiFlow.

Recently, I told you that RemoDesk was mainly used for call centers, but recently, there have been requests not only for call centers but also for all general employees of a company. If it increases, there will be a huge increase, and if it settles down, it will simply settle down, but for now, we are expecting a balance like that in our budget.

I think the balance among these three so-called existing areas will become clearer over the next year or so, but that is the gist of it.

**Kobayashi [M]:** Understood. Thank you very much.

**Toyoda [M]:** Thank you very much. Does anyone have any other questions? Now, Miyazaki-sama, please unmute your voice.

**Miyazaki [Q]:** My name is Miyazaki from Goldman Sachs Japan Co., Ltd. Two questions, please. Both questions are about the future medium-term plan, or how you see it. This year's sales will be JPY4 billion, but I think M&A will secure sales of about JPY2.2 billion. Since the profit of JPY1.8 billion is disclosed on page 75, can you tell us what kind of profit will be generated if you are able to make M&A deals, and what kind of certainty you are looking for in M&A deals?

As for the second question, if you look at the next three years, what do you see as the degree of contribution of M&A to the growth of JPY25 billion?

**Shigematsu [A]:** It is difficult to say anything about M&A at this point because of insider information regulations, but I can only say at this point that we will actively implement M&A.

We cannot announce the profit contribution from M&A activities at this time because of information restrictions, but in general, as was mentioned earlier. No matter what form the M&A takes, we will aggressively use the profits to invest in our next project.

This is probably related to your second question, but if we were to buy a company, for example, our main theme would be to use the synergies to increase the value of the Company and convert it to AI, as we have done with Focus Channel.

Therefore, we cannot acquire a company unless it is profitable in the first place, and I believe that the theme for the next three years will be how to take a company that is profitable in the first place and make it even more profitable.

In that case, even if there is already a profit in the accounting, the amortization of goodwill will be added, so technically it may go back and forth. In terms of profits and the remaining portion, the first point is that we are planning to invest in the remaining profit for at least the next three years.

As for the second question, how much effect it will have after the second year, it's much like what was discussed, but after M&A, there are two ways to increase sales.

One is run rate, where it was purely area sales, [Inaudible]. When it comes to run rate. The first point is that the run rate and full-fledged area will be ridden the following year. That's the first point.

The first point is very simple and easy to understand, and the second point is not that simple, but it's essential to business growth. Which is why we talked about Focus Channel as well as number of units and unit price. Although the number of unites and unit price for each are increasing, I am unable to disclose what company can be bought based on the result of these activities. Basically, I can't say more about how much it will grow in this area just by doing the math.

However, the activities that we are doing now in the Focus Channel will be expanded in the future. Overall, to answer both your questions, I would say the most important thing is that we have Focus Channel joining the Group, and, for example, if a new company A, were to join our group in the future, I don't think the two should be separate businesses, so the assets that Focus Channel has can be applied to the new company. Same can be said of the ability that Neural Pocket has to create the diamond of AI, the engine, which then can be applied to that new company.

In theory, these will be organically connected to create the smart city business that we are aiming for. For example, we just talked about Company A, but let's say that Company B joins in the future. When it does, the Focus Channel, Company A, and Company B will be organically connected with Neural Pocket, the creators of the AI diamond, at the center. We are thinking of a series of such organic developments. We are planning to develop our business in the future based on this theme of being organically connected.

**Miyazaki [M]:** I see, thank you very much.

**Toyoda [M]:** Thank you very much. Is there anyone else who would like to ask a question?

Thank you very much for joining us today at Neural Pockets Corporation and the financial results briefing for the fiscal year ended December 31, 2021. We will now adjourn the meeting.

[END]

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### **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.*