Neural Pocket Inc.

FY2022 Q2 Financial Result Briefing Meeting

August 12, 2022

Event Summary

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	Roi Shigematsu	Founder, Chief Executive Officer
	Ryosuke Tane	Director, Chief Financial Officer, President of Financial Management Division
[Analyst Names]*	Ryo Kobayashi	Mizuho Securities Co., Ltd.

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

Presentation

Toyoda: Now, it is time to commence the meeting. Thank you very much for taking time out of your busy schedule today to participate in Neural Pocket Inc.'s financial results briefing for Q2 of the fiscal year ending December 2022. I'm Toyoda, and I will be the moderator today. Thank you.

Today, we will make a presentation using the financial results presentation materials disclosed on our IR website on August 10. We will be sharing screens via Zoom, but if you are joining us by phone, please visit our IR website to view the documents. In addition, filming or recording of this briefing is prohibited.
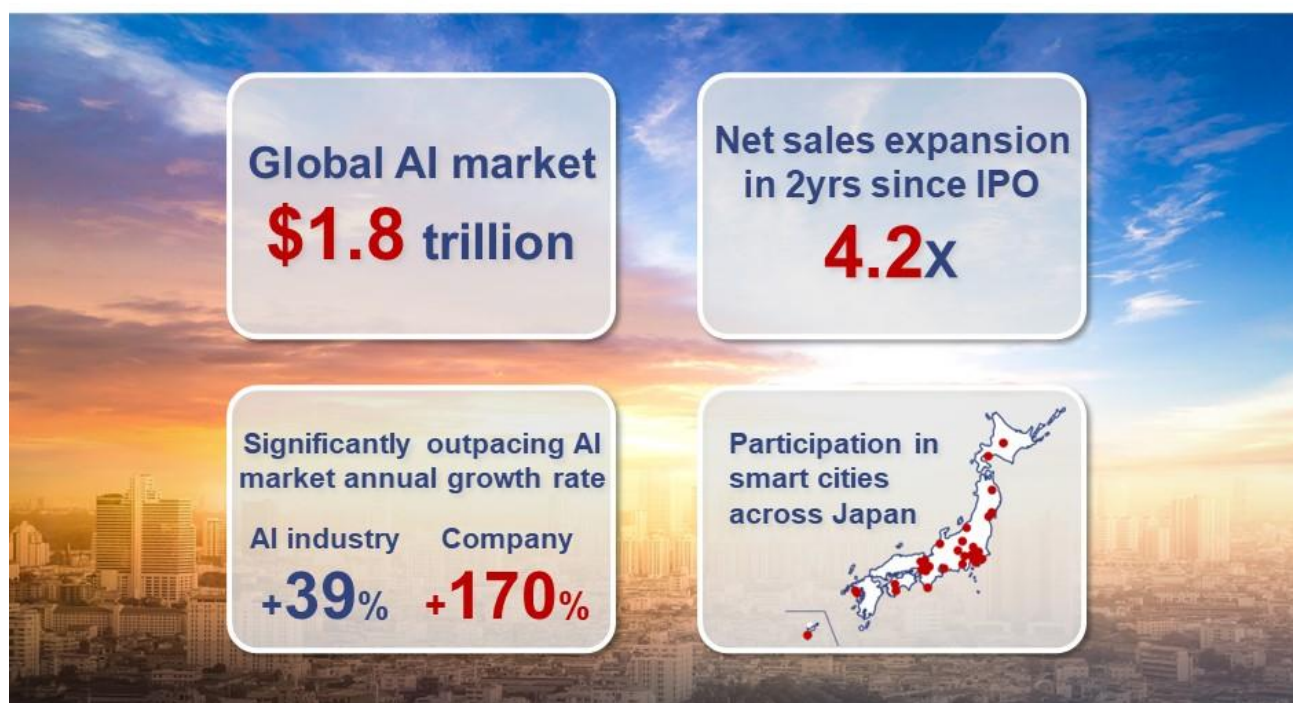
Now, let me explain today's flow. First, Mr. Shigematsu, Chief Executive Officer, will give a 40-minute presentation on business overview and performance. After that, we will have a question-and-answer session until 12:00 PM at most. Both Mr. Shigematsu, Chief Executive Officer, and Mr. Tane, Director, Chief Financial Officer, will answer your questions.

We are using the Zoom video conferencing system today. Please include your affiliation and name in your account name, as this will be used to nominate a questioner for the question-and-answer session. In addition, only those who speak during the Q&A session may share their account name and profile picture with other participants. If you need to change the settings, please do so in advance.

Thank you for your patience. Chief Executive Officer Shigematsu will now give an overview of our business and performance. Then, I will now hand over to the CEO.

Shigematsu: Thank you for joining us today. It has been about two years since our company was listed on the stock exchange, and I feel we are finally able to settle accounts at this stage with a good response. Since we have not yet explained the response we are feeling within the Company and to the market, I understand that some of you may feel uneasy, so I would like to focus on explaining today.

Four and a half years after founding, the company has grown to become a leading edge AI company

Global AI market
$1.8 trillion

Net sales expansion in 2yrs since IPO
4.2x

Significantly outpacing AI market annual growth rate
AI industry   Company
+39%   **+170%**

Participation in smart cities across Japan

First, let me begin by highlighting the market environment surrounding our company and our performance over the past two years.

In the AI market, where we are naturally competing, we feel that the time has finally come for it to blossom. The highlights page of this year's financial results shows a scene of the rising sun, which is an expression of our confidence in our company's future growth, as well as the rapid rise of the market itself.

The AI market, about JPY12 trillion, which I will explain later, is finally ready to start up rapidly and expand tenfold or twenty-fold. It has been about 10 years since deep learning emerged in 2012, and while this was the dawn of the industry and its creation, the global trend is for it to scale up.

At the same time, what we have been doing for the past two years is to first build a solid foundation for our business, and we have achieved a 4.2-fold increase in sales.

The reason why we need sales is one point: without sales, we cannot develop. We have been actively allocating the gross profit generated by subtracting the cost of sales from total sales, which we generated from revenue generated from sales to development. In this sense, we have made a leap forward in our business little by little, which ended up achieving a 4.2-fold increase in sales.

At the same time, the AI market, as I mentioned earlier, is growing at an annual rate of about 39%, which is quite a large growth market even when viewed on a global scale, and we have achieved an annual growth rate of about 170%, far exceeding the market growth from our first year in business.

Behind this is a steady performance. As you can see at the lower right, we are a company that applies AI to smart cities. Although our focus is still on Japan, our AI is being used in a wide range of smart city activities throughout Japan, from Hokkaido to Okinawa.

When we went public, we only had a few locations, but what we needed to do to scale up was to implement the system [and] continue to introduce [it]. In addition to securing technologies that can maintain stable operations, the amount of implementation of such systems will not increase unless the municipalities and facilities that use them feel that they are useful. The result was that it spread throughout the country.

Regarding the expansion of sales in Japan as well as overseas challenges in the short term, we feel strongly about our achievements in smart cities as a foundation.

Neural Pocket

Business strategy and company highlights

1. **[AI Market Environment]** AI industry is rapidly scaling along with active Edge technology development
   i. Deep learning has captured the limelight since 2012 with expectations of huge market potential (**forecasted global AI market size of 1.8 trillion USD** in 2030)
   ii. Many global tech giants actively investing in the edge space (**edge processing annual expansion expected at 69%**), with key benefits such as privacy-protection, cost efficiency, operational robustness, and scalability
   iii. Edge AI industry has matured where standards around hardware, software, and business models have been refined
   iv. Whilst US companies are facing hesitation, **a large white space in Asia**, driven by rapid smart city development is present

2. **[Our Advantage]** With strong tailwinds surrounding Edge AI, we have established proprietary services and a technology platform to enable smart cities
   i. Founded in 2018 upon the rise of Edge AI technology, we are providing proprietary Edge-AI technology for smart cities
   ii. Our annualized **sales growth rate of 170%** has far exceeded edge processing expansion of CAGR 69%
   iii. We have established **"Neural Platform"** a technology platform for edge AI services. As our AI libraries are designed to run on a variety of globally procured edge hardware, we provide versatile, and universal AI services
   iv. As we establish a robust track record of service installation across Japan, we expect further expansion of Neural Platform both domestically and internationally, especially targeting the Asia region

3. **[Financial Results]** Sustained high business growth and profitability, and completed accounting impairments to strengthen earnings structure going forward
   i. Achieved **sales growth (+135% YoY)** and strong **profitability (GP margin of 67%)** through both organic/ inorganic growth
   ii. Focus Channel Inc. (acquired Nov 2021) and NETTEN Inc. (acquired Feb 2022) were integrated to form **Neural Marketing Inc.** to accelerate synergies. Upon integration, we recorded an impairment loss on goodwill etc. Separately, in response to the maturation of the technology landscape, we have re-prioritized technologies and have recorded an impairment loss of fixed assets. The impairments are non-cash, with the counter effect of **profitability improvement in following years**
   iii. The above are the results of actively reallocating resources to evolve our business in a rapidly changing environment

3. **[Future Prospects]** Plan to achieve high growth in both sales and earnings with the maturation of the business
   i. No changes in plans to continue **high sales growth and profitability (GP margin)**
   ii. Assuming recovery in profits, with concentration of businesses and technologies. **Expecting to be profitable from Q3**
   iii. Continue to strengthen our technological superiority and further expand sales team. We also plan to actively pursue further **M&As**

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The highlights of the details of the financial results are presented here.

As I mentioned at the beginning, the market environment for AI is finally brightening. This is the JPY241 trillion growth I mentioned earlier.

In particular, there has been a debate over whether AI should be processed in the cloud or at the edge. Both sides survive, but the processing of edges is something I've been talking about in the market lately, and I've been asked what edges are, a lot less often. Analysts, as well as our municipalities and private customers, are much less likely to ask us to explain the edges. Why is that? Because it is scaled.

The edges are useful, and they are useful for protecting privacy and personal information. We also believe that the ability to significantly reduce installation costs is gradually becoming more widely recognized in society, and this kind of edge processing is now gaining considerable recognition.

At the same time, deep learning is where edge processing has emerged so far. Deep learning came out in 2012 and the edge came out six years later, around 2018, but what is the standard in the global market, in short, what is the standard for edge processing?

Whether to use NVIDIA devices or QUALCOMM? The standard for global technology will not be set until the programming language, Python or C, is decided, and I think we are getting closer to that point. We have written this as the basis for scaling, and this is what we are beginning to see.

At the same time, what is the value of AI providers in the Asian region, which is a highlight of this financial results. When I talk to investors, especially those outside of Japan, they ask why should they invest in Japanese companies in AI? As I will explain later, there is a growth potential area in Asia.

While Western companies have not been able to penetrate Asia due to the constraints of the West. Currently, only some Chinese companies are supporting the growing smart cities in those Asian regions, so there are untapped areas. This is where we will concentrate our efforts.

Second point. As to what has formed our company's superiority, first of all, we have always wanted to create a service that is easy to understand as a service. As I have explained, the area we are focusing on is edge AI application in smart cities. We have been focusing on providing unique AI services in the smart city area. As a result, we have been in business for four and a half years now, and our annual growth rate is 170%. I would like to state here that we will maintain our growth rate.

I have been trying to figure out what is needed to maintain this, and I would like to mention that the Neural Platform, which I will explain later, is critically important. This will be explained later. The Company is aiming to develop a standardized format using the Neural Platform, focusing on the domestic market and, of course, Asia as well.

The most recent performance. The annual growth rate for H1 was 135% compared to last year, although the Company has grown due to M&As. I consider that earnings would be okay with growth like this. The gross profit margin, which we had been emphasizing, was 67%.

As you have already seen, a high gross profit margin is good for the fixed cost portion of the business. Gross profit is almost defined as variable costs, but when scaled, costs do not follow scale. The cost of the fixed portion does not follow. This would mean that businesses with high gross margins would explode in profitability as they scale.

At the same time, M&A conducted in H1. We acquired two companies through M&A: Focus Channel, at the end of last year to be exact, and NETTEN during H1. Those two companies had different characteristics, and Focus Channel was a venture company. The structure of the company was similar to that of a venture acquisition, with a staff of about 20. NETTEN is more of a somewhat mature and larger company that was established more than 10 years ago. We have conducted two different types of M&A, and these two have successfully generated synergies as we had planned.

On the other hand, we have also written down goodwill, which may be of interest to some of you, but in other words, we have written down the Focus Channel portion of the goodwill. We see a big leap of Focus Channel through integration. In the AI and signage domains in particular, Focus Channel's definition of goodwill is the advertising business within condominiums. Although this business is growing at double the rate of growth, it is not necessary to make profits only from condominiums to grow by 10-fold or 20-fold.

In particular, NETTEN is a company that has deployed outdoor signage in 10,000 locations. Compared to that, Focus Channel had 240 locations, which was one fortieth of NETTEN. The synergy between the two companies is that Focus Channel is able to take advantage of NETTEN's extensive sales network, significant installation experience, and name recognition.

We will apply our AI in these areas. The vision area with AI technology is one of our priority areas, and we are in the process of integrating and creating a new company based on this policy. For accounting purposes, if we change the definition of Focus Channel, it would need to be impaired. However, in essence, we believe that this is something that should be actively implemented this fiscal year, and that if we cling too tightly to the definition used at the time of the Focus Channel acquisition, we will lose the ability to scale.

What to do with goodwill? What to do with this definition? If the Company was stuck over debating that, it will limit the growth that investors expect. Therefore, we will get over that and achieve a big leap. Naturally, since this is an accounting process, there is absolutely no impact on cash flow. As I mentioned in the highlights, we are aiming to maintain our high sales growth rate, which has been growing at 170% so far, although I am not sure if the rate will be exactly 170% or not.

Then there is profitability. Gross profit and profitability are very important to the Company. It is true that society needs businesses with low gross profit margins, especially when trying to scale up, but we have a policy of not taking orders in this area. We believe that maintaining profitability will come into effect in the future. The important part, though, is that we will earn profit from Q3 onward. Profit may be EBITDA, but EBITDA is, of course, operating surplus.
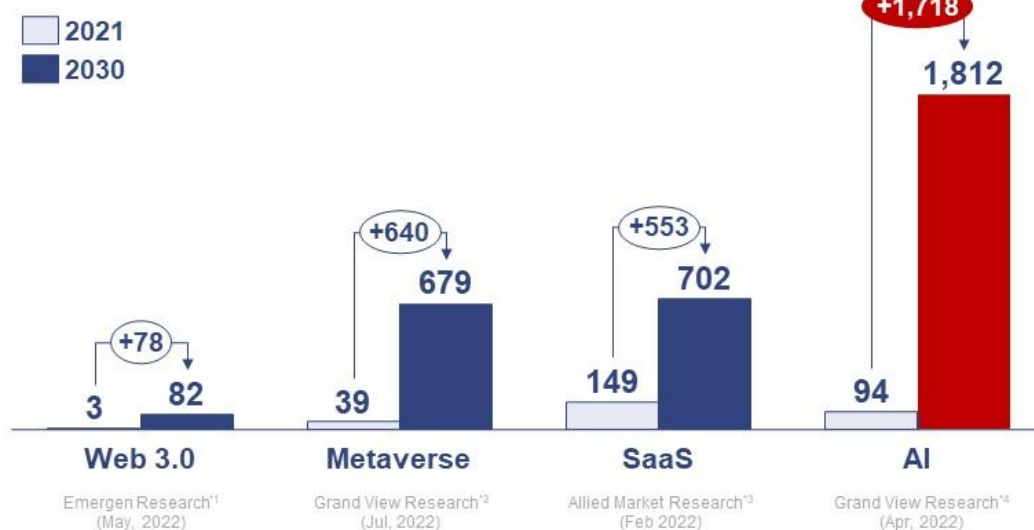
We have been in the red for the past three quarters, but we believe that we are now in a position to finally achieve operating profitability, and we are ready to realize operating revenue in H2.

These are the highlights.

AI industry is expected to grow to an overwhelming market size compared to other growth areas

Global market size comparison

(Billion USD)

☐ 2021
■ 2030

	Web 3.0	Metaverse	SaaS	AI
2021	3	39	149	94
2030	82	679	702	1,812
Growth	+78	+640	+553	+1,718

Web 3.0 — Emergen Research[*1] (May, 2022)
Metaverse — Grand View Research[*2] (Jul, 2022)
SaaS — Allied Market Research[*3] (Feb 2022)
AI — Grand View Research[*4] (Apr, 2022)

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I will briefly explain page five.

If you are an investor, this is your guidance page.

The area of focus. Web 3.0, Metaverse, SaaS, and AI are all great areas, and as an entrepreneur myself, I am interested in all of them, but we have been focusing on AI for a long time. I think both SaaS and Metaverse look fun, but again, AI is an area that is expected to create tremendous promise and markets.

2021 to 2030. In 2021, SaaS was JPY20 trillion compared to JPY12 trillion for AI. SaaS may be more attractive; however, the growth of AI will be tremendous, and will amount to about JPY200 trillion globally over the next nine years. The scale of the creation will be tremendous, approaching or even exceeding the GDP of an entire country.

As a matter of fact, we believe that the scaling of AI has actually begun globally, as is the case with the current analysis.

The AI industry is scaling through shifting from selling "AI tech itself" to selling "AI-enabled services"

AI has not scaled well so far, and investors always say to me during investor interviews that it has not scaled well so far. The reason for this is shown on this page, but AI scaling is actually something that AI companies around the world have been thinking about for a long time.

As for how to scale, I have drawn a picture of an iceberg on the left, but it is only the upper side that everyone has been doing, for better or worse, after AI technology has come out until now. The mainstream AI business to date has been for AI providers to offer the AI technology itself.

For example, since we have AI technology, when we have been in business for two or three years, the inquiries that come to us are actually about this. Large companies said that they would like to develop something like this. They were looking for a company that can do this and asked us if Neural could do it. We said we could. They asked to develop that in three months. Then they offered the price. That was the typical business model.

The AI companies have been competing on the basis of their AI technology itself, although in some cases they are providing the AI technology itself and selling it outright or selling it under license. As mentioned above, customizability is important when doing contract work. This has been a barrier for scaling. Even if you build a library for each individual customer, it cannot be deployed horizontally.

In the early days, it was often necessary to offer the license itself as intellectual property. We have not done any or of this kind of work, but there have been a lot of these globally. Developing the technology itself and then selling it off requires customization and is also difficult to scale. This stage is finally over.

In the next stage, there was a lot of talk about using AI technology to conduct demonstration experiments. Although we have not conducted any demonstration experiments, we have been unable to escape from the

trap of demonstration experiments for about two years. From the perspective of the businesses who conduct a demonstration, they would try it, and if it works, good or bad, that is great, but if it doesn't, they don't go farther. So, it took a long time, and did not scale well.

If we go a little further to the next stage, companies wanted to work together, so they said let's develop together with large companies and venture companies. AI companies can keep licenses and intellectual property, so businesses can subscribe to it and pay monthly for the licenses. So, there was the idea of moving right along and sharing sales.

Immediately after we went public, we were asked by investors whether we could survive with two-thirds of our sales coming from large companies, but as of today, large company sales are below 5% of our total sales. The reason why the business model is a barrier to scale is that even if a venture company wants to create and sell a product, it will not scale if the sales strategy does not match that of the large company that is the sales partner.

Since we went to the trouble of making it, let's sell it, a venture might say. No, actually, from our point of view, this one is not enough, so we want to sell this one, the large company might reply. Or let's develop this technology additionally. This kind of open innovation, however, was the upper part. Of course, there are successful companies in Japan and overseas, but the JPY229 trillion to be created as mentioned earlier will not come from here.

What will create the money is this lower part, which we believe is a huge market. The sales of AI services. It does not matter if it's the AI provider or vice versa, or if the large company itself creates and does it, the key is that it is selling a service that is implemented using AI. For example, Apple uses facial recognition technology. With the iPhone, you can sort photos automatically. For example, if I look at my cellphone's library, I can search for photos of myself, my family, and my friends, using artificial intelligence technology. Scales easily. The reason is that the iPhone itself has tremendous global scale.

Then the scale is dramatically increased by the fact that the AI engine is added to the service. That is one clear example. The significantly important area of AI is to sell services by upgrading existing services by adding AI to the technologies or service networks. Businesses will see the service that they already have by adding AI on top of that.

So is automated driving. There are some cases where companies that have never made a car at all have started out with automated driving, but the overwhelming majority are companies that already have car sales and a manufacturing network and are now adding AI to develop automated driving. In that sense, we are trying to scale such areas in the camera and display areas. In other words, we believe that selling AI services is the infrastructure that will accelerate scale.

However, there were many barriers to be an AI startup. The first was that AI technology needs to be quite diverse. I mentioned to upscale with AI but having a single AI product is not enough technology.

For example, if it can detect faces, people, and cars, then, that service can be used in many places in the city. However, if only facial recognition is available, it can be used for entrance authentication, but for other purposes, it will suddenly become unusable. We have been using most of our development efforts on AI technology for about three years since the Company was founded, until just after we were listed.

After the listing, where we were focusing our efforts was the rest, as the other boxes had to be in place to make it easy to scale.

For example, stable operation of 24 hours a day, 365 days a year. If you use an iPhone, you can use it all day and never need to reboot it in the middle of the day. You don't expect it to shut down suddenly in your daily

use. In the case of artificial intelligence, in the demonstration experiment to provide the above AI technology itself, if the stable operation rate was 90%, that would be considered a good thing, and to some extent, this was allowed. Saying that it is a demonstration experiment.

However, this is not the case when it comes to commercial use. Once a downtime occurs, you will receive calls from customers who are using the system. They will demand to fix it right away. In order to establish such a system, it is important to have a solid AI system.

Also, regarding the service utilization scene expansion written in the upper right corner, where can we use AI in the city? It could be used at parking lots to show full or open. It could be used in disaster prevention. It could be used to ease congestion in human flow. Or it could be used to analyze customer visits within a commercial facility, for example. Providing convenience as an expanse, rather than piecemeal, is another reason why people would want to use the service.

For example, when you use a smartphone, you use a web browser, which is naturally convenient when you use a mobile phone, but when you use an application that allows you to view weather forecasts, shop at e-commerce sites, watch videos of your hobbies, watch dramas, and listen to music, you will find the smartphone more convenient.

Then, people who used to use PCs will say, I can do everything on my smartphone. Even Excel and PowerPoint can be opened these days. When it comes down to it, some people may be thinking that a computer is almost never needed in the first place. The same goes to AI.

They have been attaching various sensors and analyzing various things or dispatching surveyors and using various methods to come up with safety and urban policies in the city. However, AI actually understands people, and it also understands cars. AI will know everything.

For example, even if you can analyze, you need to be able to transmit it to the customer. There are devices to transmit, and by being able to run ads, you can gain the latest local information about the city. It is convenience and this is how smart cities are progressing. It's the same. We believe that something similar to the way smartphones have taken on dominant power will happen in AI. This is what we have been doing.

Bottom left, the versatility of the analysis data. What is interesting is that, quite a few of the businesses that use our AI, in some cases, are actually using AI from other companies as well. It is a platforming system that integrates those things at the same time.

If other companies' systems were to be used, we would have trouble if not accepting them. So, we accept the services of other companies. Even if they are used as they are, we will integrate them in our database. For example, they have a camera from another company. They have a camera that we have not supported so far, and they want to install our AI engine in it.

Later, AI can be introduced to existing equipment and facilities. It is called retrofitting. The ability to support retrofitting is also critically important for the companies introducing these systems.

Also, the cost of ease of implementation. When we went public, we were actually charging tens to hundreds of millions of yen for installing an AI system in one facility. You may think it is good to get a unit price, but if you ask how many businesses out there can afford to pay that much, the TAM is by far less.

What we did was to drop the unit price to a level that would make it somewhat easier to introduce. How to drop it took a lot of time and effort. If it takes a lot of time and effort, for example, if you have to go and fix every single part that is not being flexible, you will go bankrupt.

Therefore, we will determine a pricing range that is easy to introduce to some extent and lower the cost of our operations within that pricing range. In order to do that all the time, though, it is important to have a platform. It will lead to the affordable price and ease of implementation.

Our AI system can be introduced immediately, instead of taking time as in a demonstration experiment. Our AI system can be installed on the spot, and that's the end of it. You can just use now. We believe that AI has reached that stage.
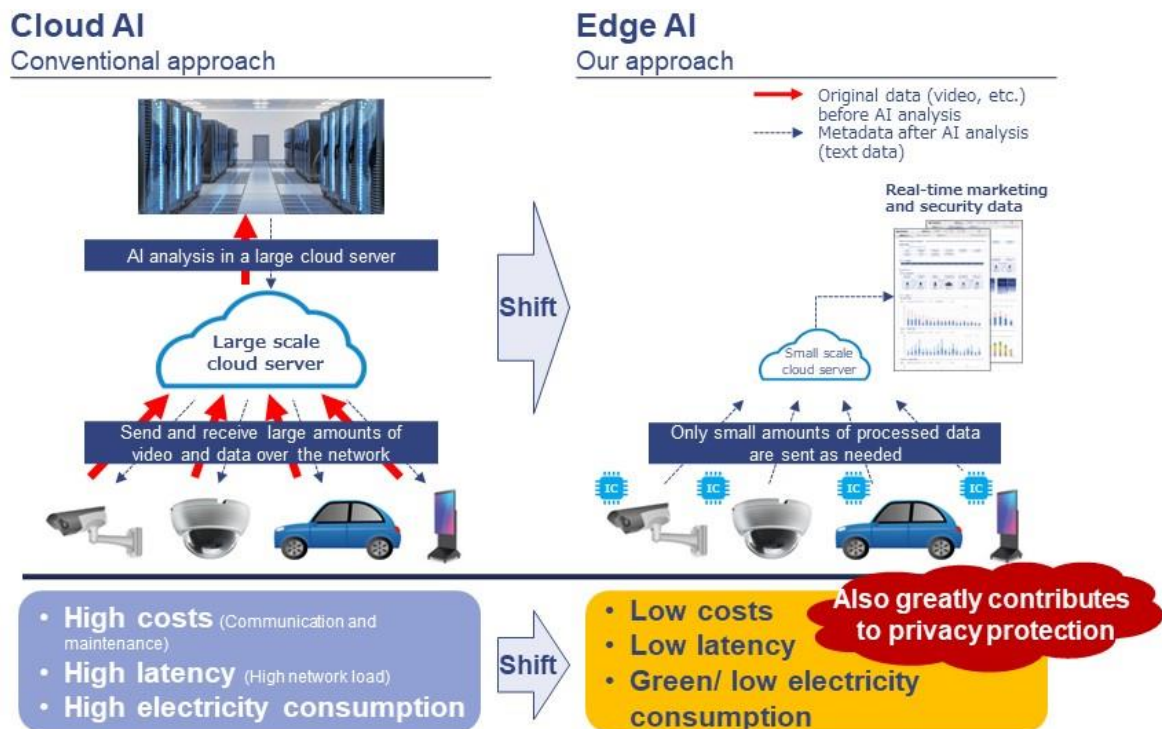
Security is the same. For example, we don't want the data in our smartphones to be leaked. In that case, you don't use smartphones. The same is true in the city. For example, it would be a problem if a video containing a citizen's face is leaked, or if data that has been analyzed is leaked outside the company. In fact, there are not many AI providers that are focusing on security systems, but the Company has been concentrating our efforts on that.

Currently, we are deploying one device a lot and have not experienced a single security problem. Of course, in addition to preventing hacking, we also encrypt data, which eliminates the concerns of the installer when implementing scale. Also, the effectiveness and satisfaction of the introduction of the system, and the use of our system is expanding in Japan, is due to the fact that many people find it convenient to use, which is why it is scaling up.

Sorry, I spoke at length, but to summarize, it is on the right. We will create an AI service that would solve society's pain points well. The next stage of AI sales is to scale toward this goal and expand sales on a large scale. We believe that is what is expected in the formation of a JPY229 trillion market.

Naturally, the AI must be highly accurate. How is the quality? Of course, the quality must be good. AI should be able to operate anytime. AI is not something to be experimented with, but rather to be used on a daily basis without being noticed. It needs to have the accuracy as well as stability to achieve that.

AI technology is rapidly evolving, supporting the growth of the industry

Cloud AI — Conventional approach

Edge AI — Our approach

→ Original data (video, etc.) before AI analysis
⇢ Metadata after AI analysis (text data)

AI analysis in a large cloud server

Large scale cloud server

Shift

Send and receive large amounts of video and data over the network

Real-time marketing and security data

Small scale cloud server

Only small amounts of processed data are sent as needed

Also greatly contributes to privacy protection

- **High costs** (Communication and maintenance)
- **High latency** (High network load)
- **High electricity consumption**

Shift

- **Low costs**
- **Low latency**
- **Green/ low electricity consumption**

7

I'll explain briefly about cloud to edge conversion.

The benefits are written in the lower right-hand corner. It comes with reasonable costs. They do not need servers that cost tens or hundreds of millions of yen. The costs of edge device equipment are already down to tens of thousands of yen per unit. Moore's Law applies. We have experienced that AI works automatically in sophisticated devices that are becoming more and more efficient.

Low latency. When video is sent to the cloud, in some cases, it can take up to a day just to analyze the AI video. However, the video will be metadata as soon as it is sent to the edge. It could be utilized more and more and show it on the display instantly.

As for green, the servers are tremendous. Air conditioner needs to be on all the time. The reason for this is that cloud server rooms generate tremendous heat, but the edge is recently fan-less, meaning that there are no fans on the equipment. It does not need that much. Edge excels in the evolution of technology to reduce heat generation.

The most important thing is privacy protection. If video footage is sent through the cloud, the footage will be leaked when it is hacked on the cloud's network. If the processing is done inside the terminal, it is practically impossible to hack the inside of the terminal, but when that happens, the images will be protected. What is captured in the video has strong privacy, as it is immediately discarded in the device the moment it is converted to metadata.

These are the reasons why edge is attracting attention not only at our company but also globally.

Adoption of edge AI technology accelerating at many global leading companies

NVIDIA

NVIDIA DRIVE AGX Xavier

Accelerate development of edge devices for autonomous driving to achieve low latency and safety unaffected by the communication environment.

arm

Ethos NPU series, Edge-oriented chips specializing in deep learning to achieve high-speed inference with low power consumption.

Meta

Many research results of edge AI for low latency processing of metaverse equipment.

Apple

Acquired XNOR.ai, a company with technology for high-speed AI execution on edge devices, for USD 200 million.

Google

Dedicated Edge AI chips are standard in smartphones, and their performance is advancing every year.

SONY

画素チップ

ロジックチップ

AI

Practical application of image sensor-integrated edge AI chip for real-time image recognition and metadata conversion.

Source: Respective company's webpage and company research.

8

Edge is important, and everyone realizes it, which is why NVIDIA, ARM, Meta, Apple, Google, SONY, and top global companies are focusing significantly on edge.

Edge processing is rapidly expanding

Total data processed at the edge vs in the cloud [1][2]
Through 2018 to 2025

Growth forecast
Through 2018 to 2025
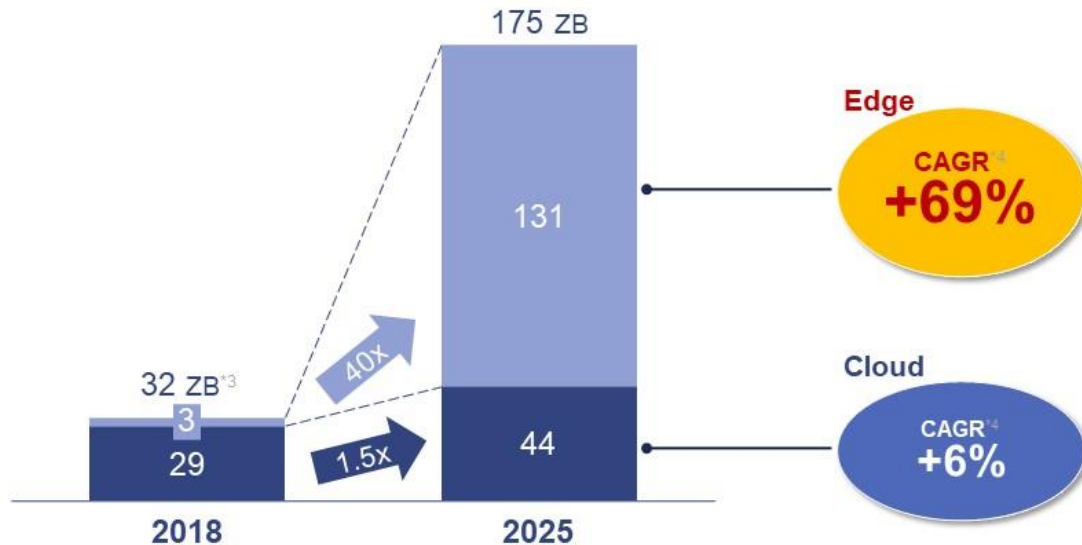
175 ZB

131

32 ZB [3]
3
40x
29
1.5x
44

2018
2025

Edge
CAGR [4]
+69%

Cloud
CAGR [4]
+6%

9

This is an analyst's view. Gartner's analysis is that the data being processed in the edge and the data being processed in the cloud is actually becoming this way. We have been introducing this for a long time.

It's a little old, but in 2018, there were very few edges. Some edges were used in the research area around 2018 when they were emerging. By placing the computer room outside as in a remote office, there was a partial edge, but not an edge in the essential sense.

In 2025, the annual growth rate will be 69%, which is 40 times higher than in 2018. This is not necessarily a denial of the cloud, and the cloud itself will grow, but the new experiences that can be created by the edge will be dramatic.
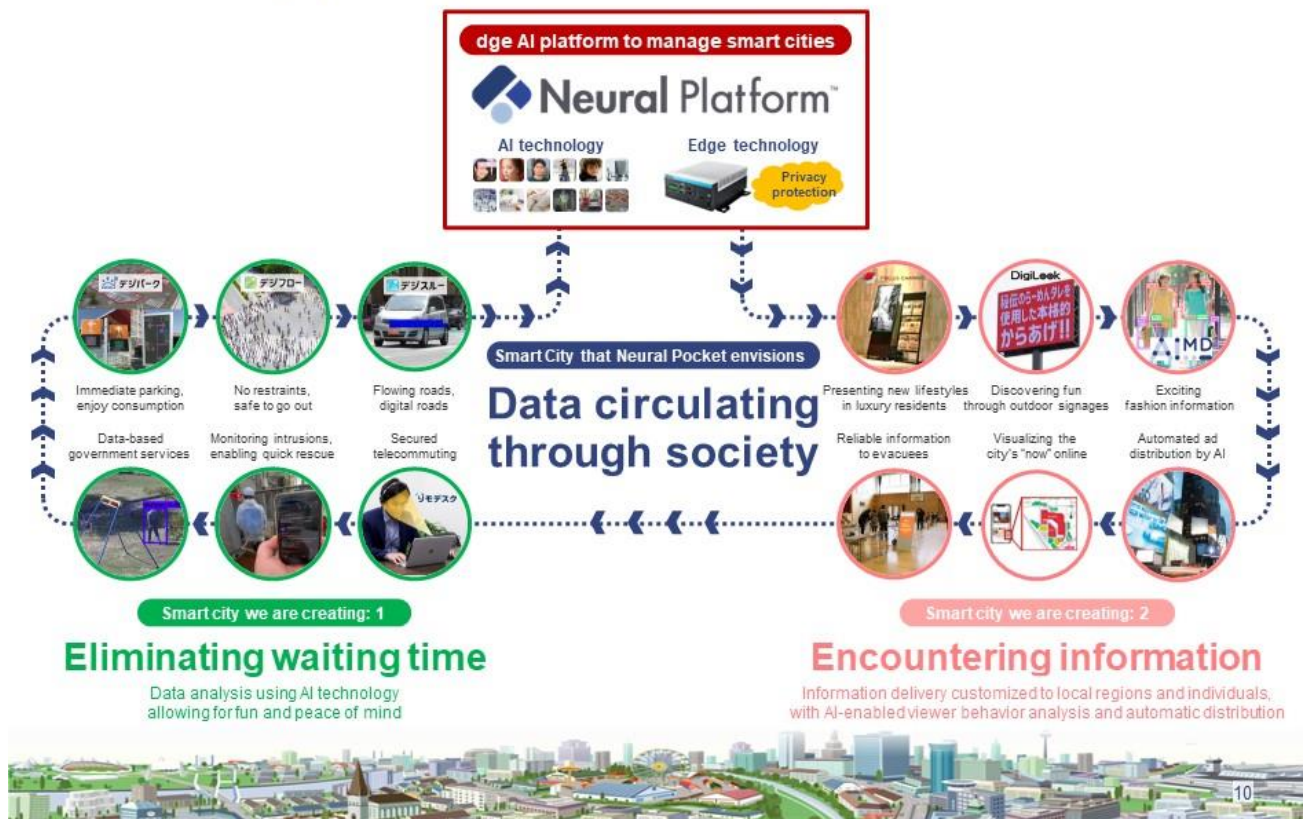
We have summarized what kind of service we will create.

If you look at the above, it says edge AI platform to manage smart cities, which we have been working very hard to build for the past two years since we went public. We will be working on this under the trade name Neural Platform, and of course we will be analyzing with our proprietary AI technology.

As for edge technology, although we do not have edge devices ourselves, AI operates on a broad lineup of edge devices that are deployed globally. It is easy to understand if you think of it as a so-called smartphone experience that combines AI technology and edge technology, can be used as data, development can be done here on top of it, and a delivery system that displays it and so on.

In the past, it might have been Apple's iTunes, but this time I presented it as a Neural Platform. Applications on the Neural Platform are the same as an application on a smartphone, and what it can do is described here.

On the left side is what you all can easily imagine with AI. You can see parking car detection, people detection, DigiFlow, license plate detection of the car behind you, and DigiThrough.

The other one is public, which I don't know if you can imagine, but it is so-called public policy. Based on the actual utilization of roads, facilities, and parks, the country and local governments will allocate welfare budgets more intensively. This is support for administrative services that consider the lives of citizens and data-based administrative services that consider where to make them more efficient.

Then there is intrusion detection, construction, and all that. Then, in addition to the safe telecommuting and RemoDesk apps, the theme is the green part in the lower left corner, which we consider eliminating waiting time as a part of smart city.

We are bundling these areas together as a group of applications, and by using AI technology to analyze data, we can use the waiting time and idle time that you have been spending unconsciously up to now as time for fun and enjoyment. Turning the time spent waiting in the city or commuting to work into playtime by being able to work from home, among other things.

On the right side, we are actively expanding through M&A, etc. and I believe that the second type of smart city is where you can encounter information - a city where AI can be utilized. In order to feed back the data analyzed on the left directly to the citizens or consumers, of course it cannot be communicated without a display device.

The facility manager understands the data. This is all well and good, but how can we create our own behavioral change and enjoyment time? An example is the dissemination of information. This is the Focus Channel or NETTEN's DigiLook. based on the results of AI analysis, we will provide local information that leads to new behavioral changes, as well as enjoyable information that is linked to individuals.

Then there is the display in the gymnasium, as shown in the lower right corner. This is an example of disaster prevention in Sendai City. It was a public service to provide up-to-date disaster prevention information in disaster-prone areas. Also, commercial facilities. The city where you can encounter information is to provide local and personalized information.

Neural Platform is a comprehensive environment to facilitate robust AI software development and operations

Neural Platform

Functions		Image and overview	Functions		Image and overview
Service, application building features	AI service mngm't	• Manage and provide AI services (AI models), such as people flow analysis and vehicle analysis, with a smartphone app store approach • Services can be easily uploaded as developers updates the AI program	**Edge Equipment Operatio-nal Functions**	Equipment mngm't, alive monitoring	• Real-time management of operational (alive/ dead) status of edge devices • Operational status and error logs of AI services in each device managed
	AI dev. environ.	• Development environment for internal and external developers to conduct AI dev. (annotation, model selection, training etc.) • Application dev. environment to run on various edge devices and apps, as well as smartphones		Remote Automatic Update	• Automatic transmission and update of AI services/ models and content (text, photos, video, audio, etc.) via LTE network • Content playback programs and program listings updated via network
Content application functions	Content play and display (CMS)	• Programs to play content (text, photos, video, audio, etc.) essential to AI services • Information communicated in real time through LTE network to and from edge devices.		Security ware	• Prevent attacks on edge devices by diagnosing security vulnerabilities for h/w and s/w • Encrypt data and communications and monitors attacks • Automatic video deletion for privacy protection
	Data analysis	• Stores data sent from edge devices and analyzes data to influence people's behavior. • Various display formats, enabling data analysis to be conveniently performed on a web browser.			

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Neural Platform. I'm sorry I am taking a little longer time than I expected.

Our company's profit has high gross margin ratio. The reason for not generating operating profit was due to a significant upfront investment. Some might think that we should be able to easily develop edge devices at this scale without necessarily being so serious. However, when the scale increases tenfold or even a hundredfold, a series of services such as these are actually needed to make it easier to introduce them without incurring the operating costs I mentioned earlier.

For example, to manage the AI service itself. For iPhone, it is the Apple Store. There are AI development environments, AI Apple and Apple Developer or Test Flight, but such AI can be easily developed on this. You don't have to start everything anew from scratch.

Content display, like a browser on an iPhone.

Data analysis. The iPhone is actually a data analysis platform that takes data and analyzes it behind the scenes and runs ads behind the scenes, as I am sure you have experienced.

Also, life and death management, in the upper right corner. For example, if I log in to my iPhone right now, the devices I log in with my current account will be all displayed: iPad, iPhone Pro, all of them. This will be the same. For example, the facility owner can see a list of all the edge equipment that is currently running at his/her place. For example, it is a life-and-death management and equipment management where anything that is stopped working is immediately visible and must be fixed immediately.

Remote automatic updates. For example, if the AI services and libraries introduced in the edge devices are updated, the program will be automatically modified at night or at a set time using LTE communication and 4G. Security is as I mentioned earlier.

This is what we have been able to do. We have been devoting development resources to these areas.

I will omit AI. There is a lot of information.

Page 13.

Edge equipment standard is gradually almost globalized like this one. The winners as processors are NVIDIA, Intel, Arm, QUALCOMM. Most of the operating systems are Linux, but there are also some AI for smartphones, such as for iOS and Android.

In terms of languages, almost all of them are Python, but we also support Rust, Java, and Swift.

Most global AI providers are only able to develop one of these products, but we are developing a wide range of products. It was quite time-consuming to have to make two or three identical products, but we have been developing these products for the past two years since they were listed on the market.

As business models in the AI industry diversify, we have established our position as an edge AI platformer

Business model

AI service provider
Selling AI-enabled services
Scaling service

AI tech provider
Selling "AI tech itself"
Individually customized

Cloud AI Service

Edge AI Platformer
Neural Pocket

Commissioned AI Development

Edge AI Development

AI analysis technology

Cloud processing
CAGR +6%

Edge processing
CAGR +69%
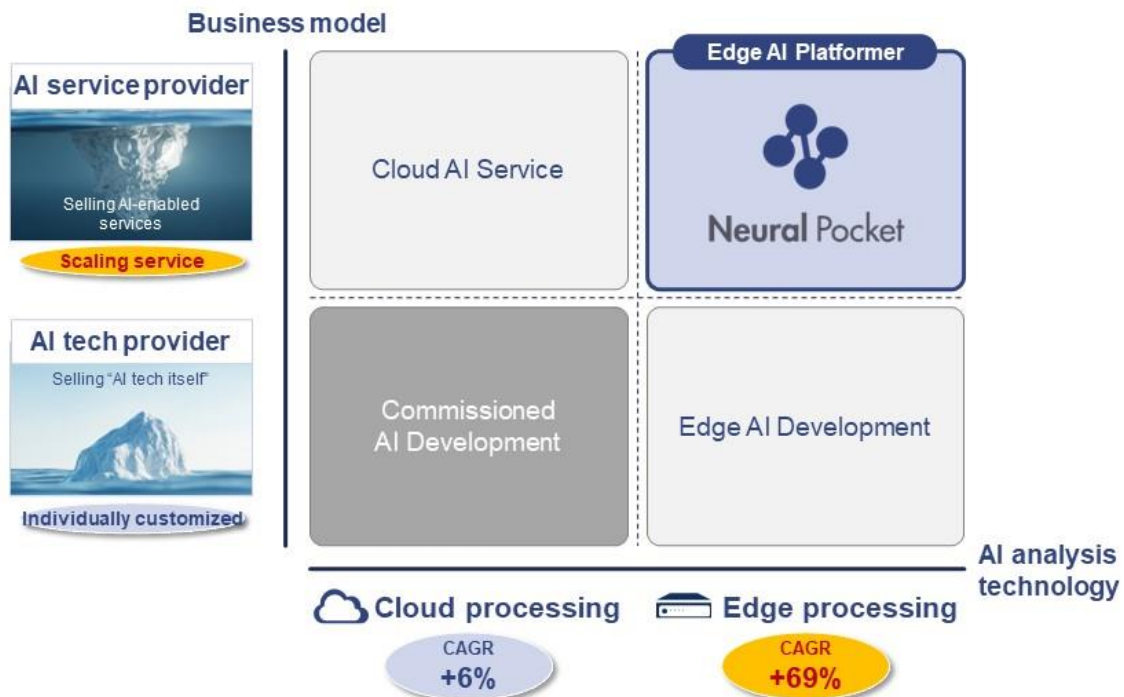
14

To summarize what I said earlier, we have clarified our positioning on the upper right.

The horizontal axis is cloud or edge. As I mentioned, the cloud is growing at 6% per year and the edge is 69%, so we are focusing on the edge. On the vertical axis, do we sell AI services or the technology itself? In short, do we want individual customization, or do we want to scale? We are a company that scales.

We are looking at 69% growth in the top-right edge AI platform area, which is by far the highest growth area with the ability to scale.

In the rapidly growing edge AI market, we have been accelerating growth since inception

The reason we have been able to achieve annualized sales of 170% since our first year in business and 4.2 times since our listing is that the area, we are focusing on is such a market.

We have been working hard to develop the technology development platform I mentioned earlier, and this has been supported by the growth of the market.

Smart city-related AI services is both the largest and the fastest growing segment at SenseTime, the world's largest AI company

The use of AI as a platform and utilization in Smart Cities is driving company-wide growth
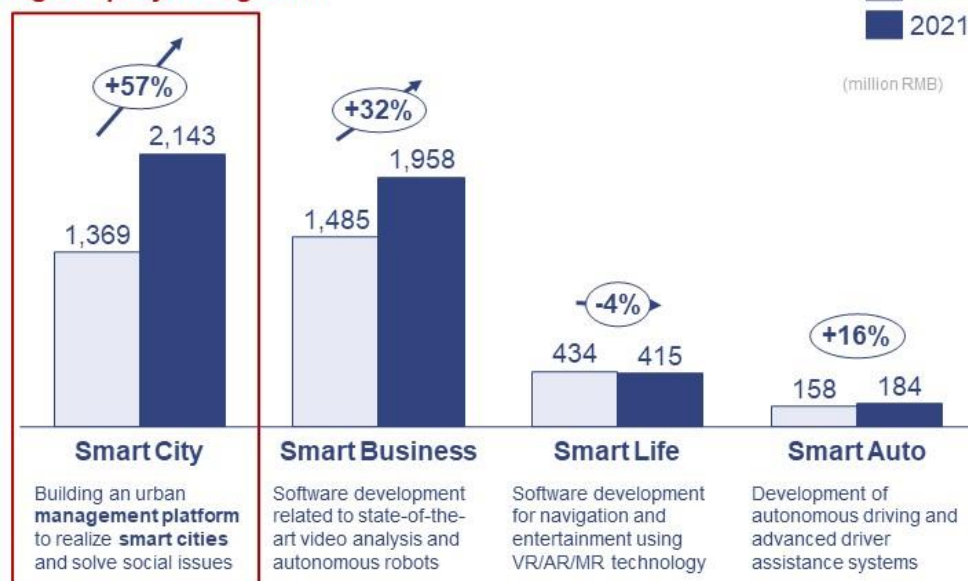
sensetime

☐ 2020
■ 2021

(million RMB)

	Smart City	Smart Business	Smart Life	Smart Auto
2020	1,369	1,485	434	158
2021	2,143	1,958	415	184
Growth	+57%	+32%	-4%	+16%

Smart City	Smart Business	Smart Life	Smart Auto
Building an urban management platform to realize smart cities and solve social issues	Software development related to state-of-the-art video analysis and autonomous robots	Software development for navigation and entertainment using VR/AR/MR technology	Development of autonomous driving and advanced driver assistance systems

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Chinese companies are also putting a lot of effort into the same area.

For example, SenseTime. The company was recently listed, and the financial results are out.

So far, the second row from the left, software development, which is called smart business, has been the largest for them, but the growth potential of the market is different.

The smart city area, which they also state that they are building a platform to solve social issues, and I feel that this is becoming an overwhelming growth area on a global basis from looking at SenseTime's financial results data.

We believe that "platform-ization" of AI technology will develop from Asia, where expansion of smart cities is expected

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

In Japan, legislation for AI utilization and it's implementation is in progress

Development of AI laws
総務省
経済産業省

Neural Platform
Introducing AI to urban development

U.S. companies are hesitant towards the usage of AI in physical spaces

IBM
Withdrawal from face recognition business (Jun, 2020)

amazon
Sales of facial recognition tech. to police stopped (Jun, 2020)

Meta
Shut down facial recognition function (Nov, 2021)

Google
Facial recognition on Pixel 6 Pro postponed (Apr, 2022)

Microsoft
Discontinued emotion analysis tech and limited use of facial recognition. (Jun, 2022)

Regional Growth Rates
High
Mid
Low

Source: Mordor Intelligence

High growth white space

Asia expansion

17

This page explains why SenseTime, our company, and other Asian companies are able to grow in these areas.

When I talk to investors, they ask what would happen if Google entered the market, but the fact is that in the US, they are fighting in a different complexity, as shown on the right side.

In the US, when it comes to the use of AI in the real world, of course there would be arguments whether it will be used for racial discrimination, or if it is safe for human rights. The problem is that the GAFAM has not been able to solve this problem, so it has been withdrawn or its functions have been restricted, as shown on the right side.

It does not mean that Asian countries ignore human rights. In Japan, the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry created the Camera Image Utilization Guidebook a long time ago. We've been doing this since about 2018, and the system that we've been building over the years as a nation is functioning perfectly. So, our Neural Platform is expanding.

As you can see from the color of the data provided by Mordor Intelligence, Asia is by far the largest region in terms of growth rates for smart cities. We believe that we can take advantage of our presence in Asia to develop the white space left vacant in the region.

FY2022 Q2 ended Jun. highlights and key strengths

Topline growth
Rapid growth benefiting from strong AI market tailwinds
Net sales growth
+135%
vs FY2021 Q1-Q2

High profitability
Maintaining high GP margins in combination with increasing sales
Gross profit margin
67%
Q1-Q2 cumulative

Large sales organization
Uncommon AI Co. building out a sales team with over 80 personnel
Group employees[1]
168 (+126)
( ): vs Jun 2021

Speed of biz evolution
Adapting business model in a rapidly changing environment
Neural Marketing Inc. Established[2]

Technical capabilities
Cutting-edge technology dev. with global team from 7 countries
Patents[3]
29 (+3)
( ): vs Jun 2021

M&A, business growth exp.
Experienced and diverse finance and M&A professionals
M&As
2 acquisitions

[1] As of Jun 30, 2022. Excludes executives (Full-time board directors, auditors, executive officers), part-time employees, subcontractors, interns. Includes full-time employees from subsidiaries, Neural Engineering Inc. Focus Channel Inc., NETTEN Inc.
[2] NETTEN Inc. and Focus Channel Inc. have been consolidated on Aug 1st, 2022 (absorption merger where NETTEN is the surviving company). The merged company is planned to be renamed Neural Marketing Inc. effective Sep 1st, 2022.
[3] Total of i) granted 16, ii) applying domestically 9, and iii) applying internationally 4. As of Jul 31st, 2022.

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Highlights of the financial results are as shown.

Annual growth rate was 135% and a gross profit margin was 67%.

The number of Group employees increased by 126 to 168.

FY2022 Q2 ended Jun. consolidated Statement of Income

(million JPY)	FY2021 Q1-Q2 ended Jun.	FY2022 Q1-Q2 ended Jun.	Increase Value	Increase Percentage YoY
Net sales	**490**	**1,153**	663	+135.3%
Gross profit	**406**	**770**	364	+89.7%
% of net sales	82.9%	66.8%		
EBITDA	**126**	**-87**	-213	-
EBITDA%	31.0%	-7.6%		
Operating profit	91	-242	-333	-
% of net sales	18.6%	-21.1%		
Net income	87	-898	-986	-
% of net sales	17.9%	-77.9%		

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Settlement of accounts.

The important part is Q1 and Q2 have been growing as planned, and gross profit has also been increasing. I thought EBITDA would break even in Q2, but sales were slightly lower in Q2 as it delays to Q3 and Q4, so EBITDA is still slightly in the red.

In essence, I think it's not a big problem. What is more important is that we believe that we have established a solid revenue base for Q3 and Q4, as I just mentioned. We have confidence about this.

FY2022 ending Dec. quarterly forecast (Illustrative)

Net Sales (million JPY) — Fiscal year total: 3,200
- Q1: 513, Q2: 640 (Actual)
- Q3, Q4 (Plan)

Gross Profit (million JPY) — Fiscal year total: 2,100
- Q1: 351, Q2: 418 (Actual)
- Q3, Q4 (Plan)

EBITDA (million JPY) — Fiscal year total: 350
- Q1: -41, Q2: -45 (Actual)
- Q3, Q4 (Plan)
- Completion of business restructuring in sight, aiming to achieve EBITDA and operating profit positive in the second half of year
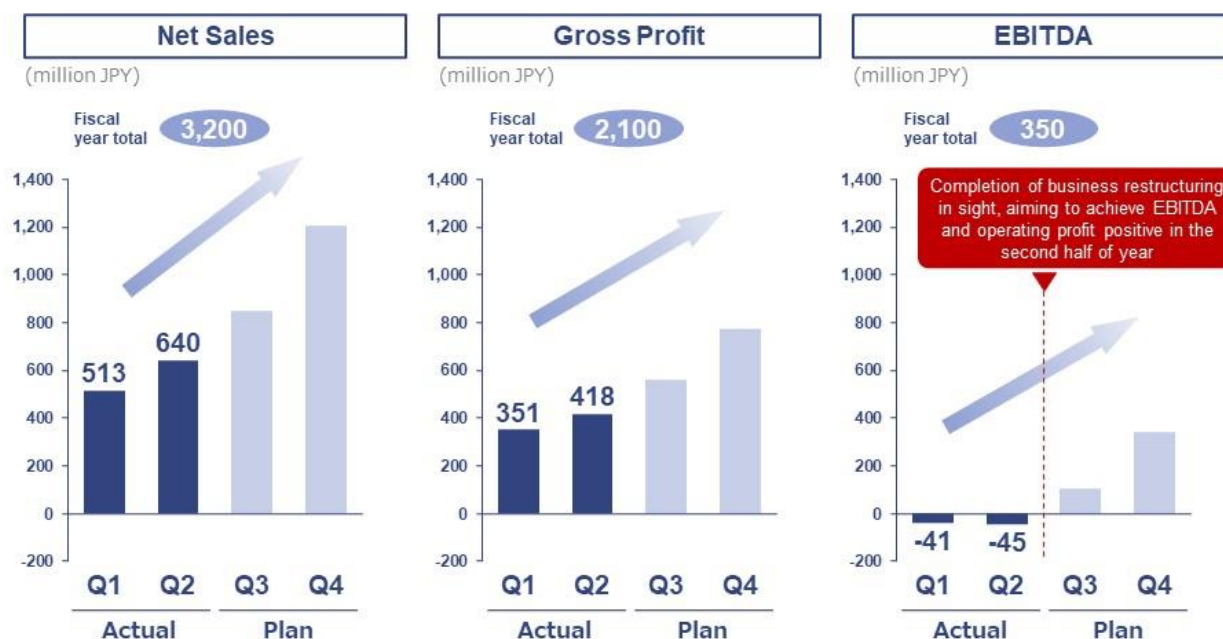
21

We believe that the increase in sales we expect in Q3 and Q4 will be realized naturally.

The most important question is whether we can show high profitability in Q4 or so? We will show it in EBITDA, but as I mentioned earlier, we would also like to show a strong operating surplus.

Quarterly net sales – Steady sales growth since company inception. Business scale expansion through both organic and M&A activity

(million JPY)

+217%
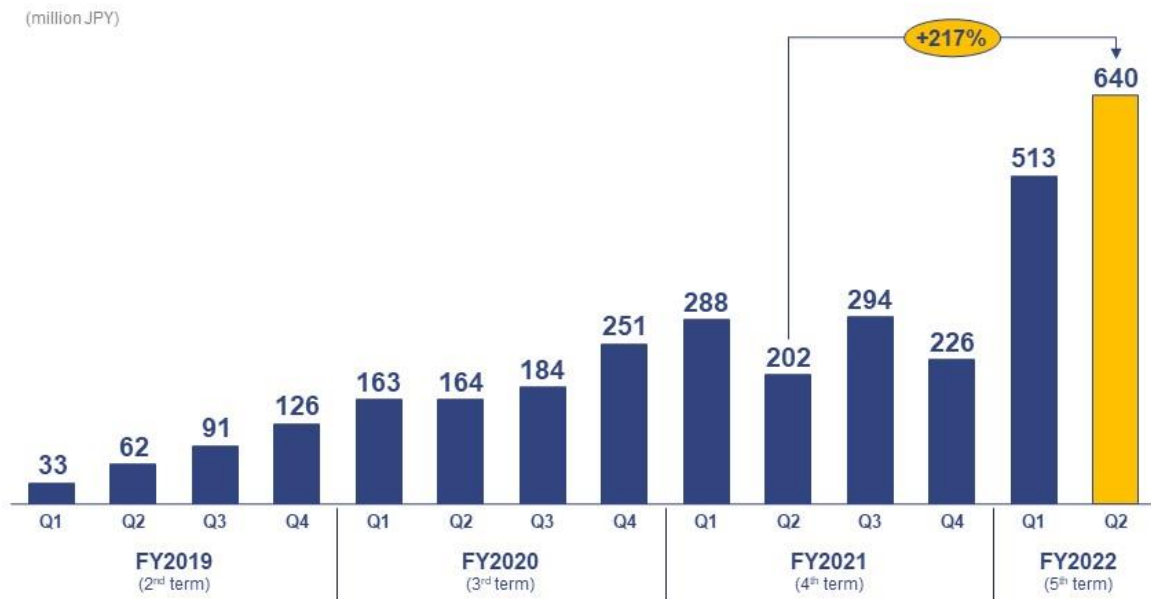
22

Here are the quarterly sales, and they are increasing.

Quarterly gross profit – Gross profit is second most important management indicator after sales, showing steady expansion

Gross profit margin (% of net sales)

| 64% | 65% | 64% | 81% | 93% | 93% | 88% | 81% | 87% | 77% | 81% | 64% | 69% | 65% |

+166% (YoY comparison)

418

351

250

237

203

162

152 152

157

144

102

58

40

21

| Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| FY2019 (2nd term) | | | | FY2020 (3rd term) | | | | FY2021 (4th term) | | | | FY2022 (5th term) | |

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Gross profit also increased.

Consolidated full-time employees[1]

- Organizational expansion particularly across engineers and sales personnel
- Engineers account for approx. 70% of the company's workforce on a stand-alone basis, where we employ talented AI engineers from around the world
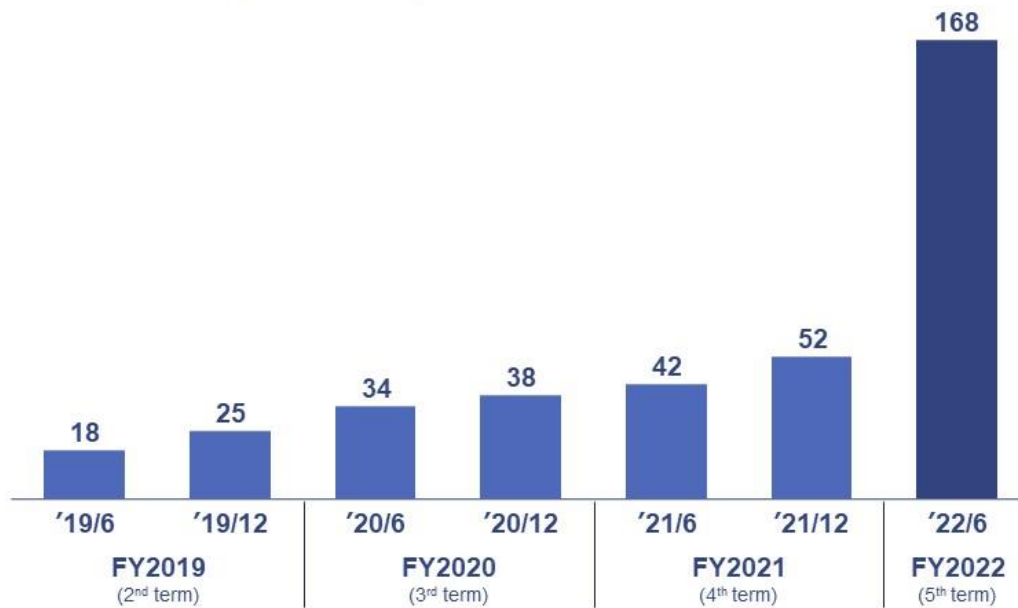
| | 18 | 25 | 34 | 38 | 42 | 52 | 168 |

'19/6 | '19/12 | '20/6 | '20/12 | '21/6 | '21/12 | '22/6

FY2019 (2nd term) | **FY2020** (3rd term) | **FY2021** (4th term) | **FY2022** (5th term)

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The number of personnel has also increased.

Neural Pocket Group operates 14 offices nationwide – We hold the necessary infrastructure to enable smart cities across the country

*1 Neural Engineering Inc. is located within Neural Pocket Inc. Tokyo HQ.
*2 NETTEN Inc. has absorbed Focus Channel Inc. through a merger on Aug. 1st, 2022. Subsequently, the merged company will be renamed as Neural Marketing Inc. as of Sep. 1st, 2022.

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The number of regions is also increasing. We have established a nationwide sales system.

I will skip this the city space part. I'll explain the following one.

Consolidation of NETTEN Inc. and Focus Channel Inc. to form Neural Marketing Inc., a sales company for AI/ signage systems

👉 Through the integration[1] of the two companies, they will expand each other's business areas and accelerate the pursuit of synergies as a comprehensive sales company for AI and signage systems.

NETTEN by Neural Pocket

LED Signage Development and Sales

【Theme for consolidation】 Evolution of business model, combining outdoor signage AI systems and advertising revenue model

FOCUS CHANNEL by Neural Pocket

Apartment Signage Media Operator

【Theme for consolidation】 Graduation from mono-business as apartment signage media service provider

Neural Marketing

Company name:	Neural Marketing Inc.
Representative:	Masaaki Yamamoto
HQ location:	Sentai, Sumiyoshi-ku, Osaka
Business:	AI sales company

Sales of AI systems

Dev., manufacturing, sales of LED signage

Signage media management and advertising

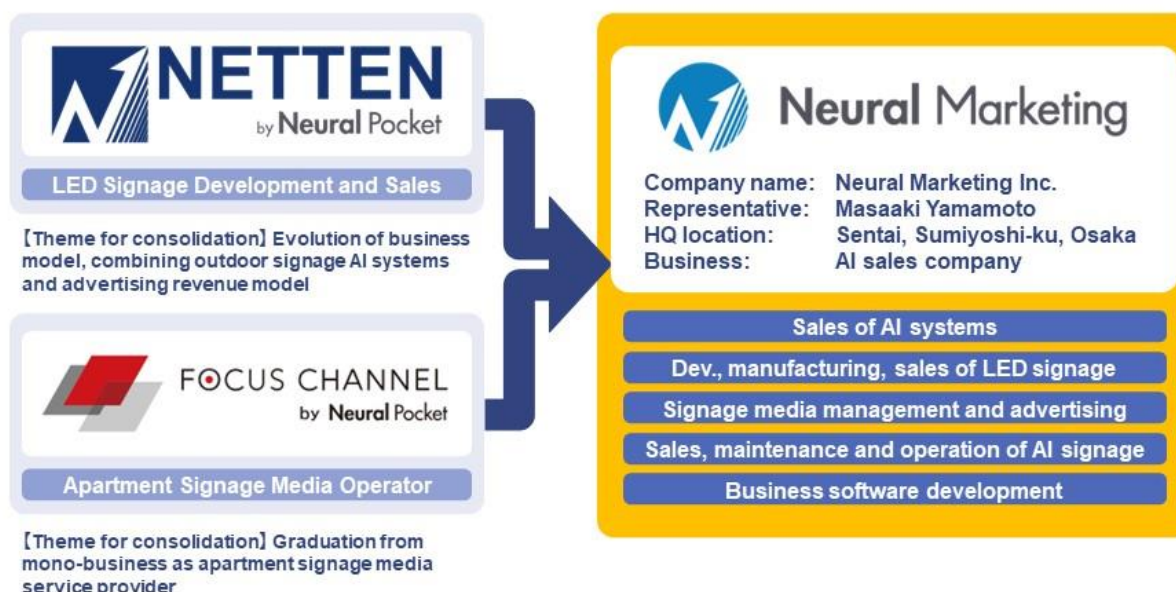Sales, maintenance and operation of AI signage

Business software development

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This is NETTEN and Focus Channel. We acquired two seemingly similar businesses in a row over a six-month period, and we believe that the synergies between the two businesses are greater than we had imagined.

Neural Marketing as an integrated company this time. As of September 1, we will establish this one. What we will do is that NETTEN sells the outdoor vision. Focus Channels advertises in condominiums as a source of income. That was business models of these companies.

The advantage of introducing these is that both companies have a very strong sales network. We believe that this will allow us to position ourselves as a marketing company, selling AI systems themselves, in addition to the display and advertising they have been selling.

At the same time, it develops, fabless manufactures and sells LED signage. This has always been NETTEN's strength, and we will aggressively strengthen this area. We are about to expand the business of signage media operations, the relationships Focus Channel has had with advertising agencies, and ad placement to outdoor locations.

We mention AI signage maintenance and business use, but these large companies, represented by Sofix, always have a marketing company. Investors asked me why we don't have an AI operator and if we shouldn't do more. I have been asked a lot of questions about this with the past financial results, and I have always said that I would work on it from now on, but the time has finally come for me to make an announcement.

We believe that we have been able to develop the edge AI and AI systems to the point where they are in easy-to-understand commercial products that can be sold by these salespeople.

Neural Pocket Group structure

	Neural Marketing Inc.[1] (previously NETTEN Inc. & Focus Channel Inc.)	Neural Engineering Inc.
Established	Sep 1st, 2022[2]	Oct 1st, 2021
Business overview	Sales of AI systems, dev./ manufact./ sales of LED signages, signage media mngm't and advertising, sales/ maintenance of AI signages	Installation, operation, and development of Edge AI-enabled services
Representative	Masaaki Yamamoto (Neural Pocket Managing Executive Officer)	Tsubasa Iwakiri (Neural Pocket Executive Officer)
Licenses		General construction permit, Electrical goods import permit (PSE)

[1] NETTEN Inc. and Focus Channel Inc. have been consolidated on Aug 1st, 2022 (absorption merger where NETTEN is the surviving company). The merged company is planned to be renamed Neural Marketing Inc. effective Sep 1st, 2022.

[2] NETTEN Inc. was established on August 20, 2003, and is scheduled to change its name to Neural Marketing Inc. effective September 1, 2022.

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Here is the Group structure. We are Neural Marketing and Neural Engineering.

Selection of fixed assets in preparation for future growth
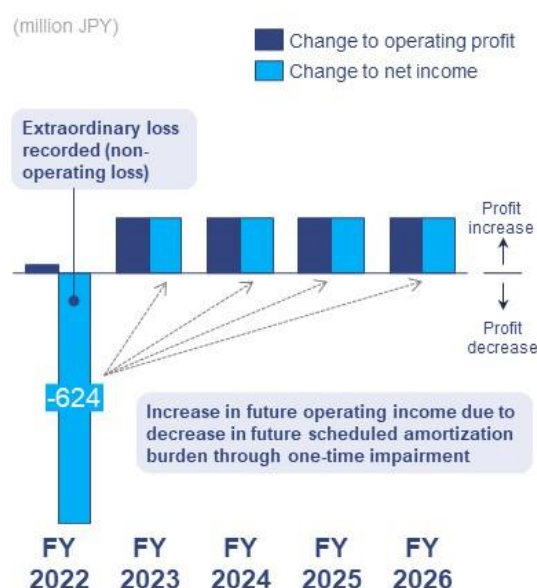
Background of fixed asset selection

〔Focus Channel biz fixed assets: 560 M JPY〕

- Regarding Focus Channel, installation base and sales has continued to grow and doubled since acquisition (214 units ⇒ 452 units installed)

- Recent M&A of NETTEN has expanded prospects for signage business, which was not scheduled at the time of the Focus Channel acquisition. Reallocated management resources from apartment signages to other non-advertising efforts to achieve greater scale.

- Due to changes in assumptions from those at the time of the Focus Channel acquisition, regardless of strong overall business progress, a one-time impairment is deemed appropriate (no impact on cash flows, with benefits of decreased amortization in future years)

〔Digi-Solution service fixed assets: 64 M JPY〕

- Stopped using the AI development server specialized in C language-based libraries purchased in 2021 for Digi-Solutions

- Responding to changes in global development standards trends, we have positioned Python, Rust, Swift, and Java as primary development languages and will concentrate efforts

Impairment impact to PL (Illustrative)

(million JPY)

■ Change to operating profit
■ Change to net income

Extraordinary loss recorded (non-operating loss)

Profit increase ↑

Profit decrease ↓

-624

Increase in future operating income due to decrease in future scheduled amortization burden through one-time impairment

FY 2022   FY 2023   FY 2024   FY 2025   FY 2026

29

Some of you may have concerns about impairment. We are quite positive about this.

Focus Channel assets were JPY560 million, but the Focus Channel itself actually increased from 214 to 452 units installed. We are currently operating as a media outlet that can reach approximately 190,000 affluent people in central Tokyo.

It is very attractive itself, but I still think that it would be a waste to use the ad delivery system and sales system only in the condominium. When I talk to our employees, they said that they can't see the service if it's not in their condominium.

Since strangers cannot enter a condominium and look around without permission, the Company strongly wanted to expand its presence in the world, where it would be more visible to the public. We are now in the process of reallocating some of our resources to outdoor locations as well, in the belief that these services should not be limited to condominiums.

However, the newly created synergies are not reflected in the business plan for accounting purposes, because NETTEN's business was not in existence at the time of the Focus Channel acquisition. Reallocation and impairment are the accounting procedures for this area, and we decided to implement them now because we believe that the earlier they are implemented, better it will be for future development, our growth in Q3 and Q4, and for the next fiscal year and beyond.

We are also planning to migrate our solution server, which, as I mentioned earlier, we bought in the second or third year from the Company's establishment. At the time, we were developing AI in C language in addition

to Python, Rust, and Swift, but the C language in particular had been used mostly by Chinese companies on a global scale. Chinese companies use C language more. Western companies use Swift and Python.

Most Japanese companies were using Python, and knowing this, we were developing in the C language for our Asian expansion. However, in light of global trends, both Chinese and American companies are overwhelmingly using Python and Swift. Therefore, we have decided that the C language is no longer necessary at this point in time, and we will not conduct development that will not be used globally in the future; therefore, we have decided to write it off at this time.

We are sorry that the financial results for this fiscal year were difficult, but it will have the effect of strongly boosting profits for the next fiscal year and beyond.

FY2022 ending Dec. revised consolidated

👉 Net income for this fiscal year has been revised by 624 million yen due to a one-time impairment of goodwill and other items. The forecast for operating income and above is unchanged. The one-time impairment will reduce the amortization burden in following years, having the effect of improving operating income.

(million JPY)	FY2021 ended Dec. results	Announced May 13 FY2022 ending Dec. previous forecast	Announced Aug 10 FY2022 ending Dec. latest forecast	Increase Value	Increase Percentage	
Net sales	1,010	3,200	3,200	-	+0.0%	Unchanged
Gross profit	787	2,100	2,100	-	+0.0%	Unchanged
% of net sales	78.0%	65.6%	65.6%			Unchanged
EBITDA	112	350	350	-	+0.0%	Unchanged
% of net sales	11.1%	10.9%	10.9%			Unchanged
Operating profit	20	20	20	-	+0.0%	Unchanged
% of net sales	2.0%	0.6%	0.6%			
Net income	11	2	-622	-624	-	Selection of fixed assets
% of net sales	1.1%	0.1%	-19.4%			Selection of fixed assets

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As I just mentioned, there are no revisions for this fiscal year above operating income.

Net income from the impairment was calculated by recording a one-time charge.

FY2022 Q2 ended Jun. consolidated balance sheet

(million JPY)	FY2022
	As of Jun 30
Total current assets	**2,005**
Cash and cash assets[1]	1,567
Total non-current assets	**1,915**
Total assets	**3,921**
Total liabilities	**3,510**
Interest bearing debt	3,080
Total net assets	**411**

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This is our balance sheet.

Changes in service domains

👉 Synergies across existing service domains were being created through the consolidation of NETTEN Inc. and Focus Channel Inc. Going forward, we plan to reorganize and disclose service domains in a more segmented manner.

Before (prior to Q2 2022)

Digi-Solution Service	AI Media Service	Lifestyle Service
DigiPark NETTEN	SIGN DIGI FOCUS CHANNEL	AIMD
+others*1		

After（from Q3 2022）

| Digi-Solution Service | Lifestyle Service |
| DigiPark SIGN DIGI Neural Marketing DigiLook FOCUS CHANNEL | AIMD |

*1 Includes Digi-Flow, RemoDesk etc.

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Service domain.

It has changed slightly, but when I say "domain," I mean lifestyle, apparel, and other digi-solutions.

Digi-solutions is a complex fusion of our services and various applications, so it is difficult to separate the domains. We will consider the possibility of dividing the service into a series of services as needed, but we are finally starting to provide a cohesive service.

Lastly, in the past, most of our financial announcements have been 15 minutes or 20 minutes long, and we have not been able to talk much about our business in the process of developing it. However, I feel confidence as I was able to present various things as a company this time.

At the same time, I believe that this is a very good time to reopen discussions with our shareholders. As a new we, it is finally taking shape as a service that is easy to explain.

Increasing diversity in shareholders since public listing

General shareholders/ floating shares [1]

VC/ Angel investors [2]

Aug. 20th, 2020 (Upon IPO)
- 4.6%
- 24.4%
- 71.0%
- Total issued 13,784,000 shares

Management [3]

Dec. 31st, 2020 (Shortly after IPO)
- 18.8%
- 12.6%
- 68.6%
- Total issued 14,013,200 shares

Jun. 30th, 2022 (Today)
- 27.3%
- 9.0%
- 63.7%
- Total issued 14,300,199 shares
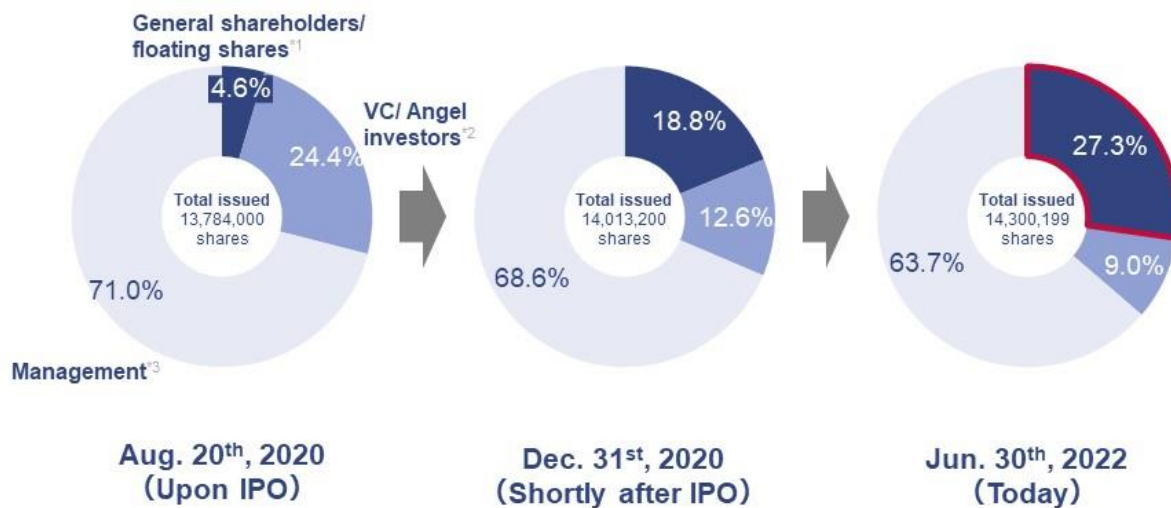
[1] Sum of 415,000 publicly offered shares upon IPO, 215,800 sold shares during IPO (including over-allotment), and shares sold by pre-IPO investors (e.g., VC investors, angel investors) and management that the company is aware of.
[2] Shares held by pre-IPO investors (e.g., VC investors, Angel investors).
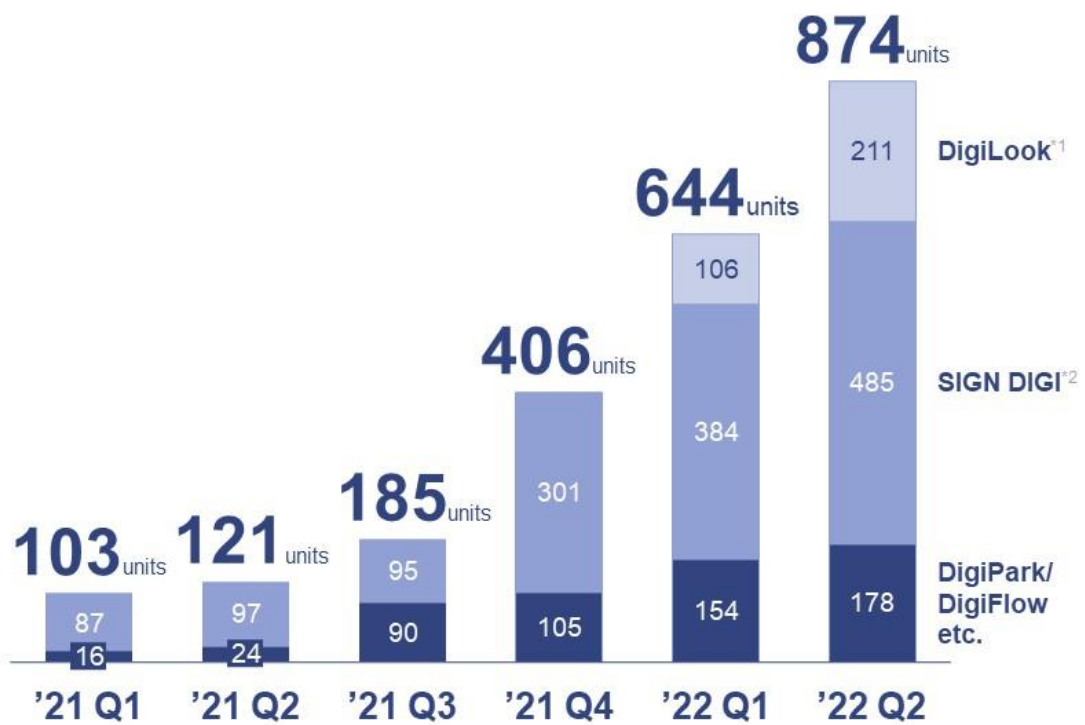[3] Shares held by Board members excluding outside directors.

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Also, the diversity of investors has expanded a lot since we were listed.

More than a quarter of stocks are traded on the market, although many are still held by some of the management team. We will continue to increase the ratio and actively engage in dialogue with new shareholders to encourage them to support us.

I will spare you the individual parts.

Expansion of cumulative unit installations of Digi-Solution Services

874 units

644 units

406 units

185 units

103 units   **121** units

	'21 Q1	'21 Q2	'21 Q3	'21 Q4	'22 Q1	'22 Q2
DigiLook[1]					106	211
SIGN DIGI[2]	87	97	95	301	384	485
DigiPark/ DigiFlow etc.	16	24	90	105	154	178

*1 LED signages installed by NETTEN Inc. post acquisition by Neural Pocket.   *2 Mainly Focus Channel digital signages installed in apartments. Also includes other signages installed for commercial use or trial installations unrelated to Focus Channel.

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Here is the number of digi-solutions installed. Page 40. This shows that the number has increased.

Digi-Solutions services are being adopted in many smart city development projects
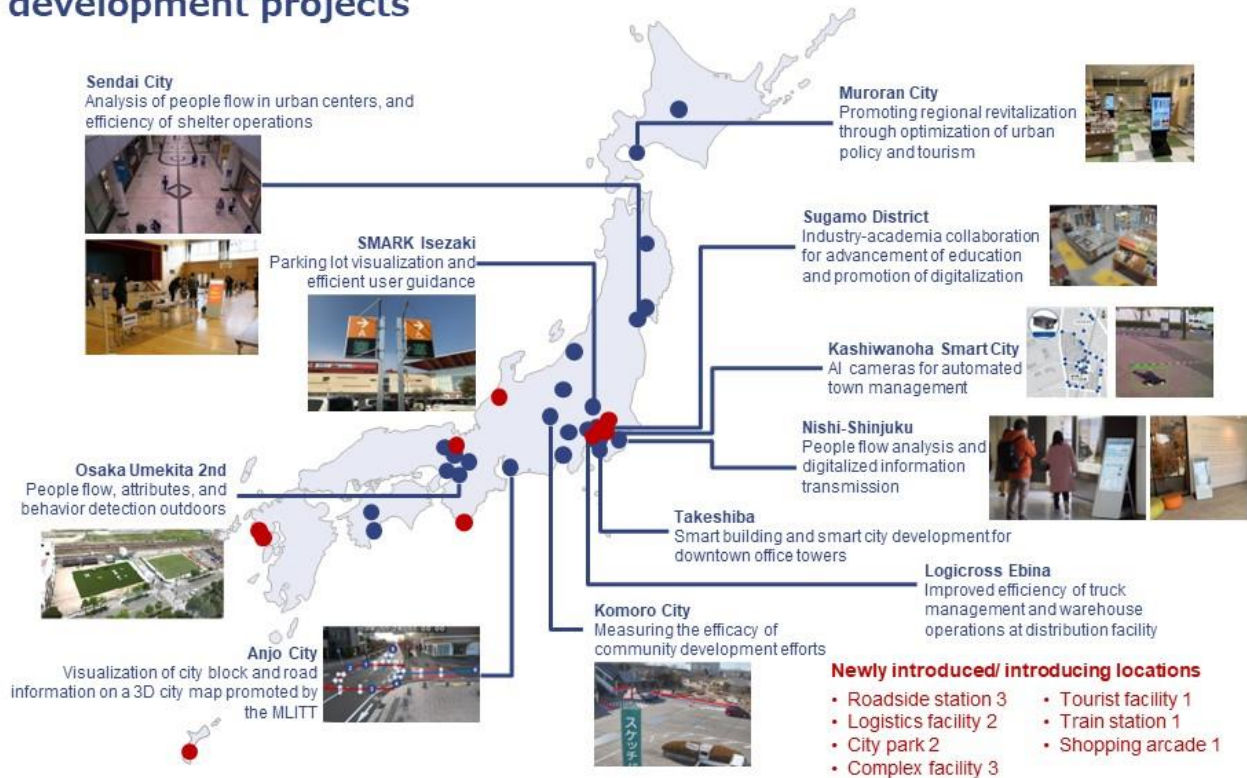
Page 41. This means that we are spreading throughout the country.

DigiLook: Top share in Japan with more than 10,000 LED signage installations

#1 installations with more than 10,000 signages nationwide

No.1
LED signage Japan No. 1

Google My Maps

DigiLook

➢ **Unparalleled installation track record**
Experience in a wide variety of industries, including large corps, government offices, commercial facilities, and merchant stores

➢ **Unparalleled track record of stable operations**
Stable operating track record throughout Japan, including cold, hot, and humid regions

➢ **Flexible contract forms**
Flexible purchase formats such as lease agreements and credit/cash purchases

☞ After joining our group, we are accelerating sales efforts towards large corporations and large-scale facilities. We are also promoting the development of highly functional products with remote content distribution and AI detection functions.

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DigiLook. It is the number one in the industry.

The AI industry is undergoing industrialization, and our company is moving to the next stage

Let me just explain this one page. This is the last page.

I believe that Neural so far has been the very start-up of the AI industry, although the four and a half years of its existence have been spent in commercialization and organization all the way through.

The formation of edge happened in 2018 and our company was founded at the same time, but the edge industry took a little over four years to form.

In particular, I am sure you understand that the technical standards I mentioned earlier have been formed. In particular, the way privacy is managed - security has been formed the way it is supposed to be. I also explained earlier that our company has been creating standards accordingly.

At the same time, Neural Platform. We built this system to be able withstand scaling. I also mentioned that we have been doing this so that users can use the same platform with peace of mind.

At the same time, you may understand that we are conducting two M&A transactions and evaluating synergies.

If this is Stage I, then Stage II is the next level, and I believe that we are now able to advance to this stage with these financial results. As I mentioned earlier, the AI industry itself is at the start of an overwhelming leap, a new market of JPY229 trillion. Edge technology itself will become de facto as the survival for the fit will progress, not as something that was new before. This is it.

Platforming is a prerequisite, as I also discussed in the SenseTime example. The service should not be a single app, the same as smartphones. If you only have a web browser, it is not useful. The market was formed with the belief that industrialization would progress through the creation of various convenient products.

We were following this trend and have announced our Neural Platform, and we will further enhance our edge AI services accordingly.

Also, de facto standard in smart cities. Fortunately or unfortunately, GAFAM is now forming such services in the US based on various restrictions, but Asian companies are in a very advantageous position in the market. In this context, we believe that we are in a very advantageous area where Asian companies are forming de facto standards.

In this context, a sales system called neural marketing. We currently have about 80 salespeople, and we will maximize the use of our sales force to sell AI as a service rather than as AI. In some cases, we are willing to provide a convenient service without knowing the use of AI. You have developed such a sales system.

We will continue to aggressively pursue M&A to expand our services and introduce AI to the assets we have acquired. We believe that this will accelerate the conversion of non-AI assets into AI assets.

This has been a long story, but that's all from me.

Question & Answer

Toyoda [M]: We are now moving onto the question-and-answer session. Mr. Shigematsu, Chief Executive Officer, and Mr. Tane, Director, Chief Financial Officer, will answer your questions.

Mr. Kobayashi from Mizuho Securities Co., Ltd. Please go ahead.

Kobayashi [M]: Thank you for this opportunity. Thank you very much for your explanation. This is Kobayashi of Mizuho Securities. I have two major points. The first question is about the balance sheet, and I would like to briefly review it. If you look at page 29 of the material, the Focus Channel fixed asset impairment of JPY560 million, as for the contents, I think the goodwill is probably roughly in the low JPY300 million range, and the contents probably include JPY200 million of goodwill from the initial purchase and JPY150 million of earn-outs. There is about JPY200 million left. What is the nature of the gap here? I am thinking perhaps software in tangible fixed assets. Could you explain?

Shigematsu [A]: Regarding this, we are writing off about JPY350 million in goodwill. Separately we are writing off software that has been developed in the past. The software is essentially usable, but we were given the opportunity to drop it for accounting purposes this time, and it is about JPY60 million plus for the software write-off. Also, installed signages for the Focus Channel business are being written off, too. We consider this accounting to be appropriate, whilst in essence the assets can still be utilized going forward. However, we consider that it is better to enter this in accounting.

Kobayashi [Q]: Thank you very much. Sub-question two of the first major question, related to the balance sheet. Looking at the BS, the level of equity capital is declining, and the short-term interest-bearing debt is a little over JPY1 billion against JPY1.4 billion in cash and deposits. How will you procure and invest that cash in the future? I would like to ask for your thoughts on this point.

Shigematsu [A]: I think that net debt is relatively high. Since most of the loans are ordinary loans held by Neural Marketing Inc., they are stable. However, I think that it is necessary to strengthen are cash position going forward.

Kobayashi [Q]: Thank you very much. This is the second question, and I would like to ask about revenue expectations going forward.

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 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 (Target)
(billion JPY)

※FY2022 ending Dec.
Company disclosed forecast is 3.2 billion JPY, whilst company target is 4.0 billion JPY

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Today

Deploying core AI technology

NETTEN Inc. Acquisition

Listing on the Tokyo Stock Exchange Mothers

Focus Channel Inc. Acquisition

【Large-scale acquisition】
Major acquisition of related domestic/international business to become the No.1 AI smart city company

【Overseas expansion】
Acquisition of local infrastructure companies in smart city space to accelerate expansion of existing domestic business, namely in Asia,

【Acquiring scale】
Acquisition of players peripheral to our organically created services and acquire scale

【Non-consolidated growth】
Organically growing from scratch, developing new sales, technology, and service operations. The core area for all future business growth.

| FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
| 1st term | 2nd term | 3rd term | 4th term | 5th term | 6th term | 7th term |

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First of all, from an organic point of view, the target for the next fiscal year is approximately JPY7 billion, as shown on page 52 of the material, but what is the current confidence level to achieve this target?

Shigematsu [A]: Whether we will reach JPY7 billion depends on whether we can achieve JPY4 billion for this fiscal year. So far, we are still only at JPY3.2 billion for this fiscal year. Whether or not we will reach JPY7 billion will depend on our activities in H2, but as for growth, we believe that we will make a further leap next year compared to the current company forecast of JPY3.2 billion.

Kobayashi [Q]: Thank you very much. In a brief follow-up, you mentioned that sales in H2 will accelerate from H1, but do you have any pipeline or prospective projects that you are foreseeing?

Shigematsu [A]: Yes, we already have visibility into the latter half of the year (i.e., H2).

Kobayashi [M]: You can almost foresee that. Thank you very much.

Shigematsu [A]: Since sales in Q3 and Q4 will be very large, it would be really good if we could multiply Q4 sales by four for next year. I'm debating over year's numbers and about how strong we should project. As you can see, the numbers are growing very strongly in Q1, Q2, Q3, then Q4, so we'll consider more about how to present the numbers for the next fiscal year.

Kobayashi [Q]: So, the company has visibility into Q4, and the expected projects then?

Shigematsu [A]: That is correct.

Kobayashi [M]: Thank you. It was a very clear explanation. That is all from me.

Toyoda [M]: Thank you very much. Does anyone have any other questions?

Since there are no additional questions, this concludes the question-and-answer session.

Thank you very much for joining us today for the financial results briefing for Q2 of the fiscal year ending December 2022 of Neural Pocket Inc. We will now close the meeting.

[END]

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