



Neural Group Inc.

FY2024 Q1 Financial Results Briefing Meeting

May 15, 2024

Event Summary

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[Number of Speakers]	2	
	Roi Shigematsu	Chief Executive Officer
	Takashi Kisaka	Chief Financial Officer

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Presentation

Moderator: It is time for us to begin. Thank you very much for taking time out of your busy schedule today to join us for Neural Group Inc.'s financial results briefing for the 1st quarter ending March 31, 2024.

Today's presentation will be based on the financial results presentation material disclosed on our IR site on May 15. 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, Shigematsu, Chief Executive Officer, will give a 30-minute presentation on business overview and performance. After that, we will have a question-and-answer session until 1:00 PM at the latest. Both Shigematsu, Chief Executive Officer, and Kisaka, Chief Financial Officer, will answer your questions.

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

CEO Shigematsu, please go ahead.

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Financial Results Briefing Material 7th term, Q1 ended March 31, 2024

Neural Group Inc.
May 14, 2024

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Shigematsu: Everyone, thank you for taking the time to join us for our financial results presentation today despite your busy schedules. This year marks our 7th year since founding. Over the past six years, we have been working on addressing social issues, such as revitalizing cities through the use of edge AI. In the early stages, our focus was primarily on developing AI algorithms themselves. Next, we moved on to commercializing those algorithms, then establishing a sales structure, and eventually monetizing the business. Over these six years, we have been steadily building our business step by step. Now, in this 7th year, all of these efforts are coming together as we aim to turn a profit. Of course, achieving profitability is important, but in a more fundamental sense, we see this year as an opportunity to make a significant leap forward in offering services that are truly embedded in society.

With that said, as already announced, I will now briefly explain the outline of our financial results.

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FY2024 (7th term) Q1 earnings highlights and business strategy updates

- **Summary** : Through the prior investments in development and sales personnel up to FY2023, we successfully built our proprietary AI services and expanded its sales structure. With the goal of monetization, FY2024 began in January. **The first quarter proceeded smoothly.**
- **Revenue** : Q1 FY2024 sales amounted to **780 million yen** (up **+29.5%** compared to Q1 FY2023). New service development accelerated through capital and business alliances established in FY2023.
 - The 1-on-1 support service **“KizunaNavi”**, jointly developed with Sony Corporation using Edge AI and SaaS systems, began service on March 12. Using both companies' video/audio analysis and generative AI technologies, the service resolves issues in 1-on-1 meetings and supports improved employee engagement.
 - In the group's condominium signage **“FOCUS CHANNEL”**, **the distribution of sports news provided by Kyodo News Digital** began on April 15. This delivers information such as results of international and major professional sports games and updates on players to residents.
- **Profitability** : Both CoGS and SG&A expenses were optimized compared to Q4 FY2023, and monetization is **steadily progressing towards breakeven.**
 - Q1 SG&A expenses were **614 million yen** (down **58 million yen** from Q4 FY2023) and GoGS ratio was **34.2%** (down **0.3pt** from the second half of FY2023).
 - The operating profit margin on incremental sales (marginal profit rate) exceeded **60%**. Thanks to cost optimization efforts that began in the second half of FY2023, profit levels at the same sales scale improved from FY2023 into Q1 FY2024.

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On page 2, as a highlight, I would like to provide a summary. In this 7th fiscal year (FY2024), where we aim for monetization, we started off smoothly in the first quarter.

Sales in Q1 reached 780 million yen, marking a 29.5% increase compared to the same period last year and setting a new record for the highest Q1 sales in our company's history.

Regarding services that utilize edge AI technology and SaaS systems, we have been jointly developing services with Sony Corporation, with whom we entered into a capital and business alliance last year. On March 12 this year, we announced KizunaNavi, a personnel service designed to promote 1-on-1 meetings between employees and their managers.

Similarly, following the capital and business alliance announced last year with Kyodo News, we have started broadcasting sports news provided by Kyodo News Digital (part of the Kyodo News Group) on our condominium signage service, FOCUS CHANNEL.

This began on April 15, and together with Kyodo News, we are now delivering enjoyable content such as sports news, which is popular among residents. This has been very well received.

While profitability is our focus this year, Q1 performance has been solid. In particular, the increase in sales, achieved without raising selling and administrative expenses, contributed greatly. Moreover, maintaining gross margin by reducing the cost of sales — which had been a key task — was also successfully accomplished.

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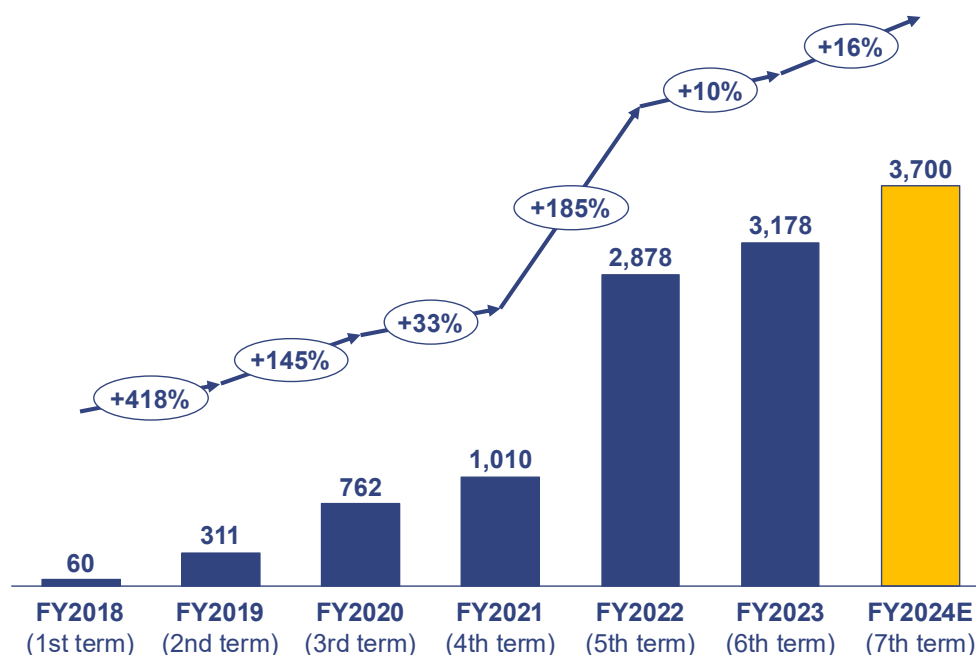
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Looking ahead, as we surpass the break-even point, a key indicator will be our contribution margin (marginal profit ratio). For this, we disclosed figures based on the past five quarters' monthly trends, and it stood at the 60% level. This is a very attractive figure, and we believe it shows the kind of solid business foundation we have built over the past six years.



Historical revenue performance

(JPY Millions)



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This is our budget, and we have announced this year's budget at 3.7 billion yen, which represents a 16% increase compared to last year.

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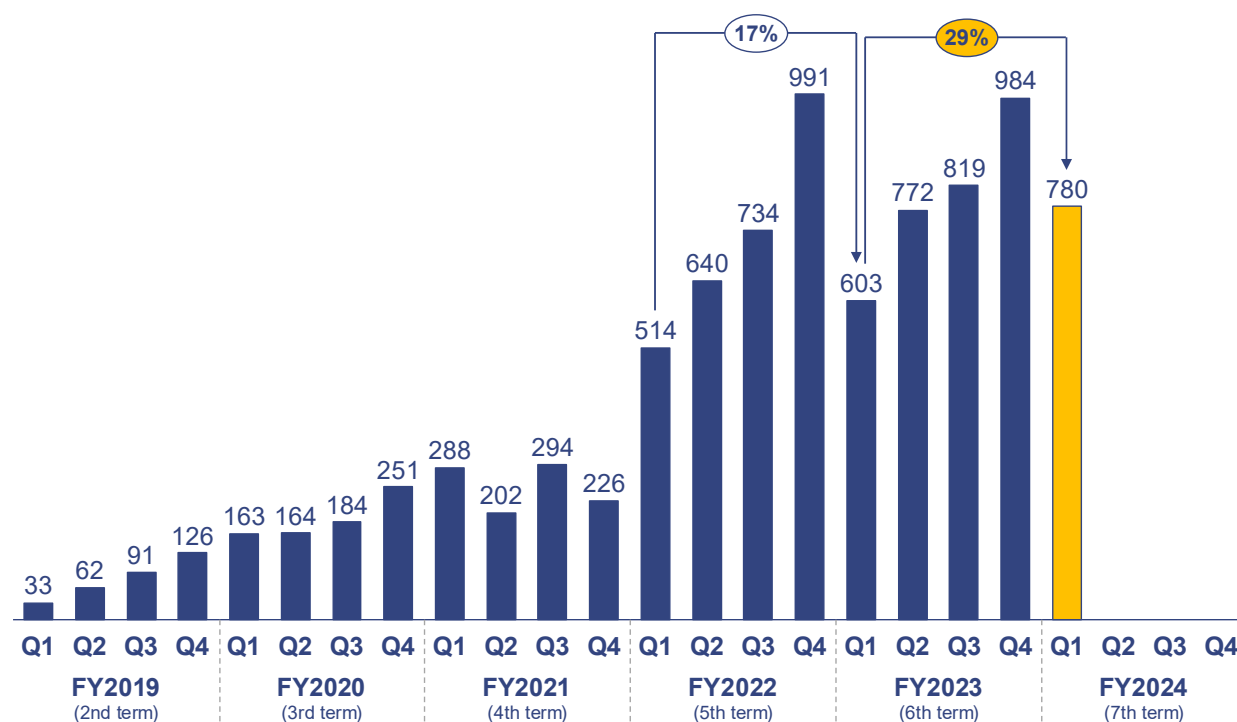
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Quarterly revenue

(JPY Millions)



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In relation to that, we began the first quarter with sales of 780 million yen. Traditionally, our business has seen sales increase progressively through the first, second, third, and fourth quarters. Following this established pattern, we expect sales in the second, third, and fourth quarters to continue increasing as well.

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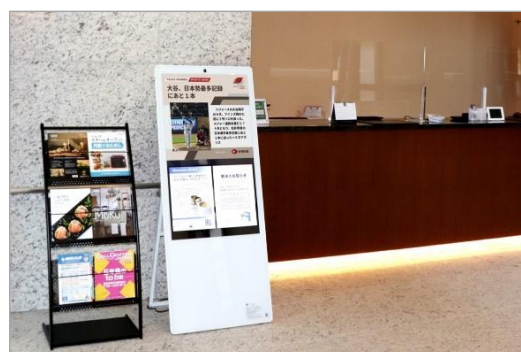
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Latest updates from collaborations with partner companies



【Collaboration with Sony】

Starting March 12, we began offering the 1-on-1 support service "KizunaNavi", which utilizes Edge AI technology and a SaaS system. By leveraging both companies' video/audio analysis and generative AI technologies, this service resolves communication issues in 1-on-1 meetings and supports improving employee engagement.



【 Collaboration with Kyodo News 】

Starting April 15, in our group's condominium signage service "FOCUS CHANNEL," we began distributing sports news provided by Kyodo News Digital. This delivers residents timely updates on international sports events and results of popular professional sports games, as well as information about players.

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As mentioned earlier, this reflects the outcomes of our capital and business alliances with Sony Corporation and Kyodo News.

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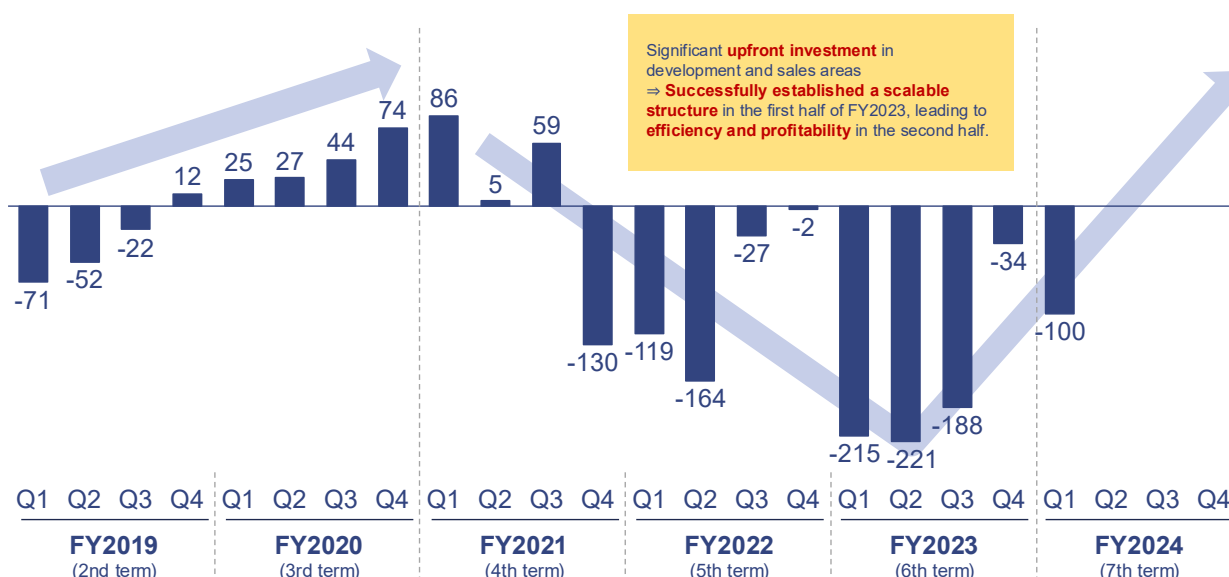
Quarterly operating profit/loss

(JPY Millions)

We started our business by developing AI algorithms and licensing them to companies.

We have shifted our business model to focus on providing our proprietary AI services.

We aim to turn scalable and profitable.



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This slide shows the profit trend, focusing on operating profit, and we believe that this year, we are well positioned to achieve a V-shaped recovery.

For our company, we see our business journey so far in phases: the first six years were divided into two phases, and this 7th year marks the beginning of the third phase. In the initial three years, our business mainly centered on providing AI licenses to large corporations — essentially offering our AI technology and earning license fees. At that time, we were developing AI in-house, primarily for our own use.

However, since developing AI for internal purposes alone does not generate revenue, we offered joint usage to large corporations through licensing, which became our revenue model. Once that was established, the next phase involved applying these AI services and algorithms into real-world services — and this became our key challenge going forward.

We continued this approach through the 4th and 5th fiscal years, and it progressed smoothly. By the 6th year, our focus shifted to establishing our own sales structure, rather than relying solely on large corporations and agencies for distribution.

To achieve this, we made significant investments in building up our sales organization. The results of these efforts began to emerge in the 6th year, as announced in our full-year financial results last year.

In the first quarter of the current fiscal year, we started with a loss of 100 million yen, but we believe we are on track for a steady path toward profitability moving forward.

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Consolidated financial results for the Q1 ended March 31, 2024

(JPY Millions)	FY2023 Q1 Actual	FY2024 Q1 Actual	Increase/ Decrease	Change in Percentage
Revenue	603	780	+178	+29.5%
Gross profit Percentage of revenue	400 66.3%	513 65.8%	+114	+28.5%
EBITDA Percentage of revenue	-176 -	-63 -	+112	-
Operating profit Percentage of revenue	-215 -	-100 -	+115	-
Net income Percentage of revenue	-192 -	-109 -	+83	-

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This slide highlights the income statement compared to the same quarter last year. From the top line to the bottom line, we achieved increases in both revenue and profit across the board.

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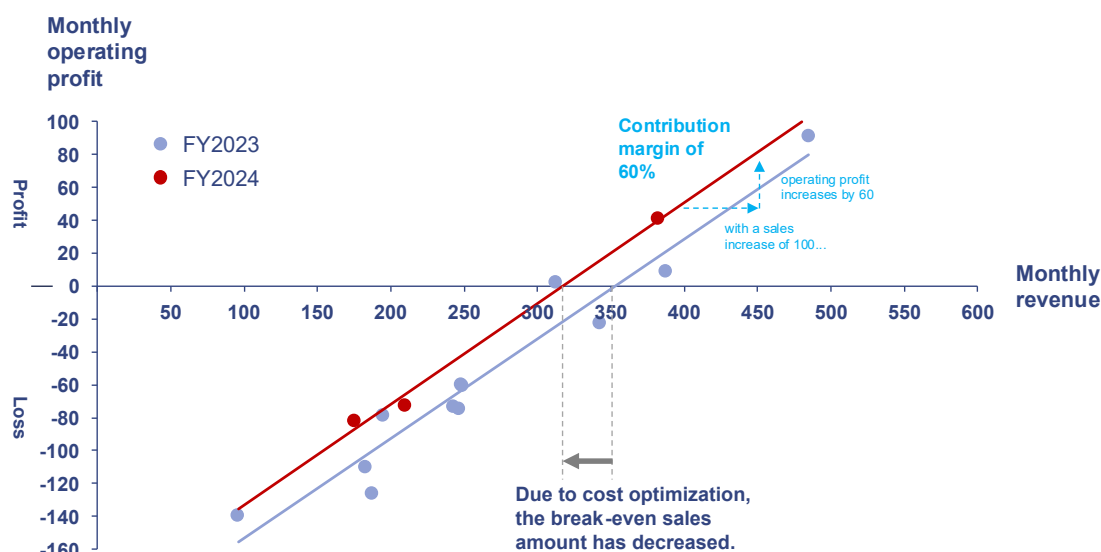
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Relationship between revenue and OP (FY2023–FY2024 monthly results)

(JPY Millions)



- As a result of cost optimization efforts starting in the second half of FY2023, the breakeven sales point has been lowered, improving the structure so that **profitability can be achieved even with lower sales**.
- The ratio of operating profit increase to sales increase (**contribution margin**) **exceeds 60%**.

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This chart illustrates the relationship between our sales and profitability going forward. The horizontal axis shows the scale of monthly sales, while the vertical axis represents operating profit.

The light blue dots reflect the trend from January to December of last year, and the blue line is a linear approximation of that data. The red line shows the trend for January, February, and March of this year. There are two key points to note here. First, the red line has shifted to the left. This indicates that our break-even point has lowered.

Last year, our monthly break-even sales point was around 350 million yen, but we have now lowered that by about 30 million yen. This improvement is largely due to cost optimization, particularly in selling and administrative expenses.

Second, there is the issue of profitability beyond the break-even point — specifically, the contribution margin, or the degree to which profits follow sales increases. In both last year and this year, this has remained steady at around 60%.

The higher this rate, the more operating profit will rise in tandem with increased sales. At 60%, we believe we are already at a relatively high level compared to other IT companies, and we expect this figure to further improve going forward.

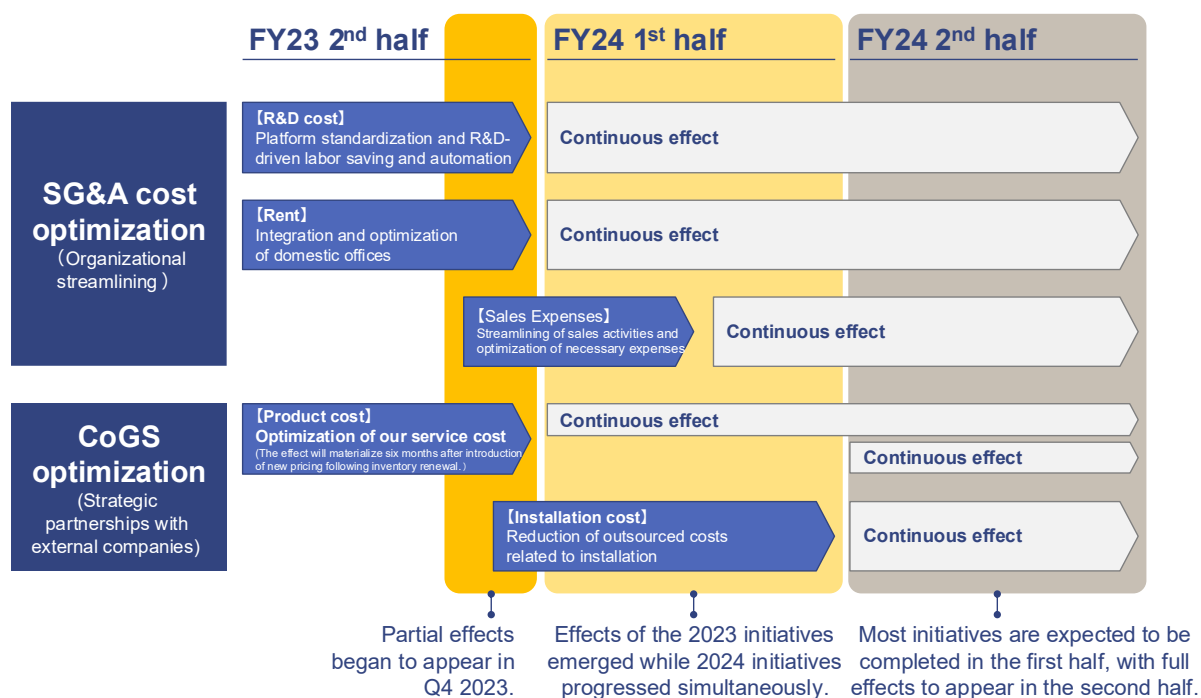
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Overview of cost optimization initiatives



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As we explained during last year's financial results, I will keep this brief, but this slide provides an overview of our initiatives to improve cost efficiency in both selling and administrative expenses as well as cost of sales.

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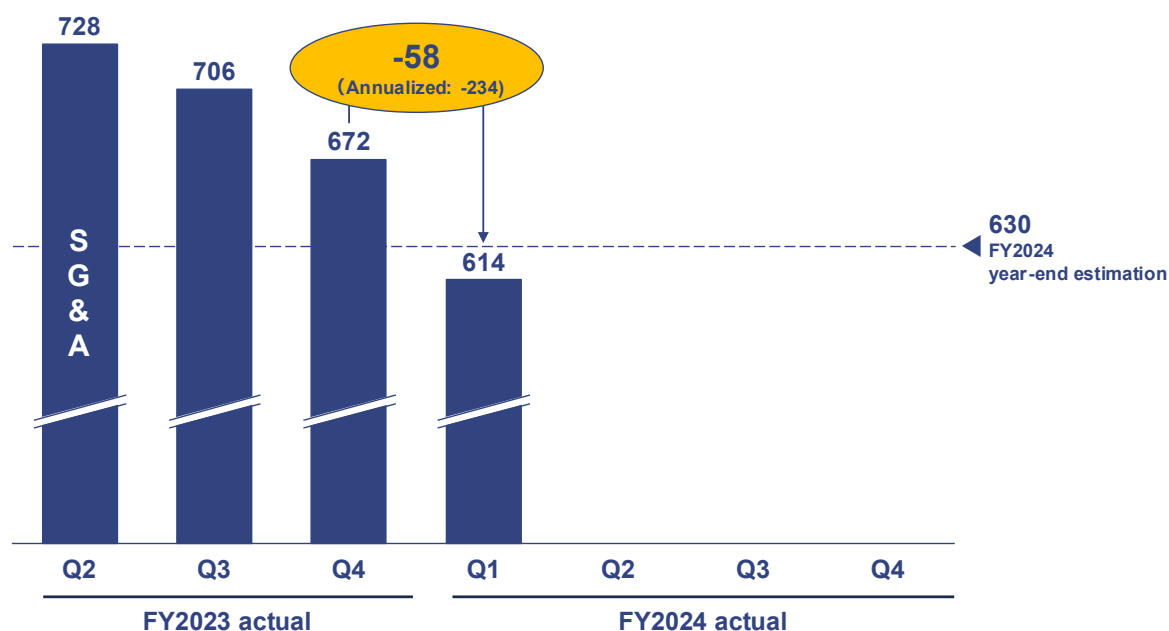
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Quarterly SG&A cost

(JPY Millions)



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As for the progress in reducing selling and administrative expenses, compared to the fourth quarter, we achieved a quarterly reduction of approximately 58 million yen. On an annualized basis, this translates to a potential profit increase of 234 million yen, assuming the same level of business and sales. This demonstrates the effectiveness of our cost optimization efforts.

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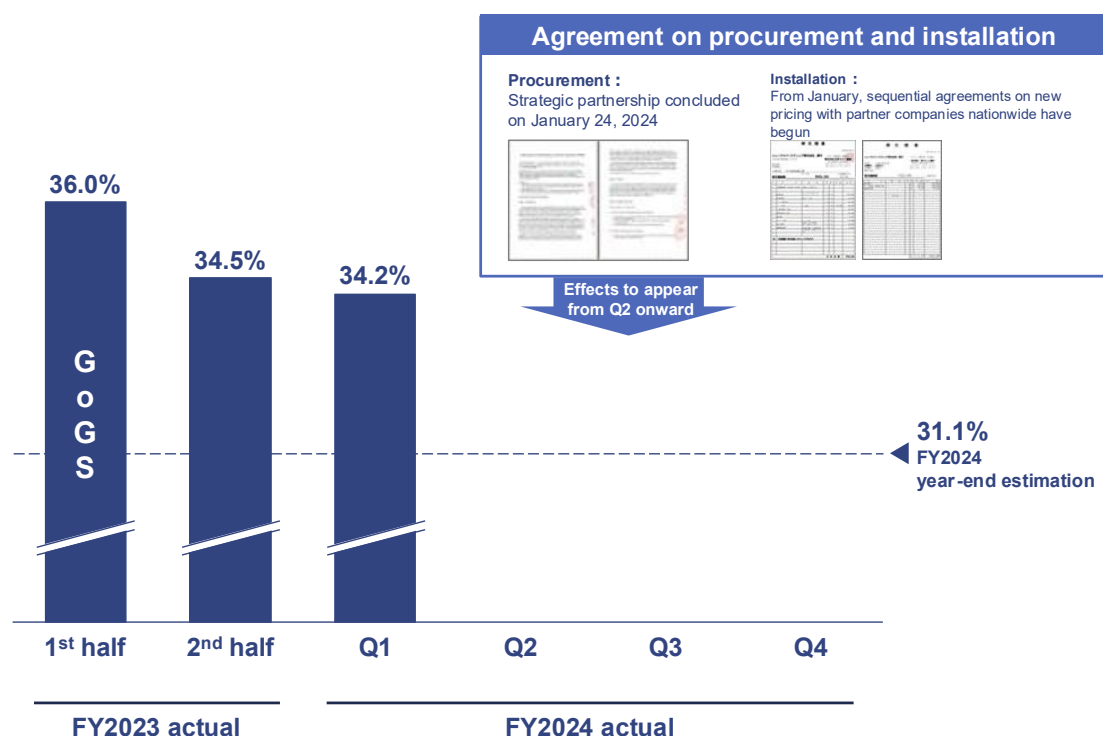
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Quarterly CoGS

(% of revenue)



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Next, regarding cost of sales — since this includes sales of inventory such as edge AI and LED hardware, the effects of reduced procurement costs will only become apparent after we clear existing inventory. As mentioned in the previous financial results, we expect the main benefits to appear from the second quarter onward. That being said, the situation is progressing smoothly so far.

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Consolidated full-year financial estimate for FY2024

Progressing smoothly (JPY Millions)	FY2023 Actual	FY2024 Estimate	Increase/ Decrease	Change in Percentage
Revenue	3,178	3,700	+522	+16.4%
Gross profit Percentage of revenue	2,063 64.9%	2,550 68.9%	+487	+23.6%
EBITDA Percentage of revenue	-490 -	180 4.9%	+670	-
Operating profit Percentage of revenue	-658 -	30 0.8%	+689	-
Ordinary income Percentage of revenue	-686 -	0 -	+687	-
Net income Percentage of revenue	-650 -	-120 -	+530	-

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In summary for this year, we announced a budget of 3.7 billion yen, representing a 16.4% increase from last year. Given that we had revised our forecasts downward for three consecutive years, this was positioned as a conservative figure at the time of announcement. However, based on our progress so far this year, we believe things are proceeding smoothly.

That concludes my remarks.

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Question & Answer

Moderator [M]: We will now move on to the Q&A session. Our CEO, Mr. Shigematsu, and CFO, Mr. Kisaka, will be answering your questions.

If you have a question, please click the 'Raise Hand' button on Zoom, and we will call on you in order.

(After confirming there are no questions) It appears there are no questions, so we will conclude the Q&A session here. Thank you very much for joining Neural Group's FY2024 Q1 Financial Results Briefing. This concludes today's presentation.

[END]

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