Financial Results for the Nine Months Ended September 30, 2021
[Japanese GAAP]

Company name:	Neural Pocket Inc.
Stock exchange listing:	Tokyo
Code:	4056
URL:	https://www.neuralpocket.com/en/index.html
Representative:	Roi Shigematsu, Chief Executive Officer
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Schedule date of filing quarterly securities report:	November 12, 2021
Schedule date to commence dividend payment:	-
Preparation of supplementary materials on financial results:	Yes
Schedule of quarterly financial result briefing session:	Yes (for institutional investors and analysts)

1. Financial results for the nine months ended September 30, 2021 (January 1, 2021 - September 30, 2021)

(1) Operating results

(% denotes year-to-year increase/decrease rate)

	Net sales		Operating profit		Ordinary profit		Quarterly net profit	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2021	784	53.3	150	55.5	146	93.1	144	92.6
September 30, 2020	511	176.5	96	—	75	—	75	—

	Quarterly net profit per share	Diluted quarterly net profit per share
Nine months ended	Yen	Yen
September 30, 2021	10.23	9.75
September 30, 2020	5.59	5.19

Note: The Company conducted a 1000-for-1 stock split of common stocks as of April 15, 2020, by the resolution of the Board of Directors meeting on March 27, 2020. The "quarterly net profit per share" and "diluted quarterly net profit per share" are calculated assuming that the said stock split was conducted at the beginning of the previous fiscal year.

(2) Financial condition

	Total assets	Net assets	Equity capital ratio
As of	Millions of yen	Millions of yen	%
September 30, 2021	2,214	1,435	64.8
December 31, 2020	1,920	1,206	62.8

Reference Equity capital   As of September 30, 2021   1,434   million yen   As of December 31, 2020   1,206 million yen

2. Dividend situation

	Annual dividends				
	1Q	2Q	3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2020	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2021	-	0.00	-		
FY 12/2021 (expected)		0.00	-	0.00	0.00

Note: Revision of recently announced dividend expectation   :   None

3. Financial results forecast for the Fiscal Year Ending December 31, 2021 (January 1, 2021 - December 31, 2021)

(% denotes year-to-year increase/decrease rate)

	Net sales		Operating profit		Ordinary profit		Net profit		Net profit per-share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full term	1,006	29.6	16	(90.4)	11	(92.1)	9	(92.5)	0.61

Note: Revision of recently announced dividend expectation : None

* Notes

(1) Application of specific accounting treatment in preparation of quarterly financial statements : None

(2) Accounting policy changes, accounting-based estimate changes, revision-based restatements

　　1. Accounting policy changes due to revision of accounting standards : None

　　2. Accounting policy changes other than 1 above : None

　　3. Changes in accounting-based estimates : None

　　4. Revision-based restatements : None

(3) Total number of issued shares (common stocks)

　　1. Total number of issued shares at the end of the period (including treasury shares)

　　　　September 30, 2021: 14,276,200 shares

　　　　December 31, 2020: 14,013,200 shares

　　2. Total number of treasury shares at the end of the period

　　　　September 30, 2021: 65 shares

　　　　December 31, 2020: 32 shares

　　3. Average number of shares during the period (quarterly cumulative)

　　　　Nine months ended September 30, 2021: 14,151,189 shares

　　　　Nine months ended September 30, 2020: 13,451,199 shares

* The quarterly short form results report is not subject to quarterly review by certified public accounts or accounting firms.
* Proper use of financial results forecasts, and other special matters

(Note to forecasts on the results of operations and other items)

Forward-looking statements, including the forecasts stated in these materials, are estimated based on the information that the Company is able to obtain at the present point in time and assumptions which are deemed to be reasonable. However, actual results may be different due to various factors.

○ Contents of appended materials

1. Qualitative information in this quarterly account closing

(1) Explanation of operating results

The Company's mission is "Update the world for a better tomorrow". In the third quarter, we independently developed and provided services making up smart cities, led by "people flow and crime prevention," "parking spaces and mobility," "signage advertisement," "work-from-home security" and "fashion analysis."

As a result of the foregoing, net sales for 3Q FY2021 were ¥784,302 thousand (53.3% increase over the same period of the previous year) with operating profit of ¥150,230 thousand (55.5% increase over the same period of the previous year), ordinary profit of ¥146,461 thousand (93.1% increase over the same period of the previous year), and net profit of ¥144,743 thousand (92.6% increase over the same period of the previous year).

Since our company has only one business segment, AI Engineering, by-segment entries are omitted.

For further details on our account closing content, please refer to the "2021 Q3 Financial Results Briefing Materials" in our IR site updated on November 12, 2021.

Reference: URL:https://www.neuralpocket.com/ir/library/

(2) Explanation of financial position

Assets

Current assets at the end of the third quarter of the current fiscal year were ¥1,837,439 thousand an increase of ¥164,050 thousand compared to the end of the previous fiscal year. This was mainly due to an increase of ¥24,634 thousand in cash and deposits and an increase of ¥90,037 thousand in merchandise. As a result, total assets amounted to ¥2,214,775 thousand, an increase of ¥293,780 thousand from the end of the previous fiscal year.

Liabilities

Current liabilities at the end of the third quarter of the current fiscal year were ¥670,374 thousand, a increase of ¥67,238 thousand compared to the end of the previous fiscal year. This was mainly due to a increase of ¥56,443 thousand in accounts payable-trade. As a result, total liabilities amounted to ¥778,924 thousand, an increase of ¥64,388 thousand from the end of the previous fiscal year.

Net assets

Total net assets at the end of the third quarter of the current fiscal year were ¥1,435,850 thousand, an increase of ¥229,392 thousand compared to the end of the previous fiscal year. This was mainly due to an increase of ¥144,743 thousand in retained earnings.

(3) Explanation of financial forecasts and other forward-looking statements

As for the forecast of consolidated financial results for the fiscal year ending December 31, 2021, consolidated net sales, consolidated operating income, consolidated ordinary income, and net income attributable to shareholders of the parent company have all decreased from the previous forecast announced on February 12, 2009.

Consolidated net sales are expected to be 1,006 million yen, consolidated operating income ¥16 million, consolidated ordinary income ¥11 million, and consolidated net income attributable to shareholders of the parent company 9 million yen. respectively, down from the previous forecast (announced on February 12, 2009).

Actual results may differ from these forecasts due to various factors.

For details, please refer to the "Notice of Disclosure of Consolidated Financial Forecast and Revision of Non-Consolidated Financial Forecast" released today.

Actual results may differ from these forecasts due to various factors.

2. Quarterly financial statements and principal notes
(1) Quarterly balance sheet

(Thousands of yen)

	As of December 31, 2020	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	1,424,812	1,449,447
Notes and account receivable-trade	192,310	238,644
Merchandise	37,763	127,801
Work in process	1,639	-
Others	16,862	21,545
Total current assets	1,673,388	1,837,439
Non-current assets		
Property, plant and equipment	71,014	138,667
Intangible assets	105,729	156,516
Investments and other assets	70,861	82,151
Total non-current assets	247,606	377,335
Total assets	1,920,995	2,214,775
Liabilities		
Current liabilities		
Accounts payable - trade	67,169	10,725
Short-term borrowings	450,000	600,000
Current portion of long-term borrowings	3,420	3,420
Income taxes payable	948	1,717
Others	81,597	54,511
Total non-current liabilities	603,136	670,374
Total liabilities		
Long-term borrowings	111,400	108,550
Total non-current liabilities	111,400	108,550
Total liabilities	714,536	778,924
Net assets		
Shareholders' equity		
Share Capital	18,547	60,100
Capital surplus	1,362,723	1,404,277
Retained earnings	(174,656)	(29,912)
Treasury shares	(156)	(380)
Total shareholders' equity	1,206,458	1,434,084
Share acquisition rights	-	1,766
Total net assets	1,206,458	1,435,850
Total of liabilities and net assets	1,920,995	2,214,775

(2) Quarterly statement of income

(Thousands of yen)

	For the nine months ended September 30, 2020	For the nine months ended September 30, 2021
Net sales	511,637	784,302
Cost of sales	44,828	141,218
Gross profit	466,809	643,083
Selling, general and administrative expenses	370,184	492,853
Operating profit	96,624	150,230
Non-operating income		
Interest income	7	14
Foreign exchange gains	-	0
Subsidy income	251	-
Others	17	60
Total non-operating income	276	74
Non-operating expenses		
Interest expenses	4,379	3,844
Foreign exchange losses	67	-
Going public expense	11,648	-
Share issuance costs	4,940	-
Total non-operating expenses	21,036	3,844
Ordinary profit	75,864	146,461
Profit before income taxes	75,864	146,461
Income taxes - current	711	1,717
Total of income taxes	711	1,717
Quarterly net profit	75,153	144,743

（3） Notes to the quarterly financial statements
(Note on going concern assumptions)
  Not applicable

(Notes on material changes in shareholders' equity amount)
For the nine months period ended September 30, 2021 (from January 1, 2021 to September 30, 2021)
1．Dividend payment amount
  Not applicable

2．Of dividends related to the nine months period as of the record date, the dividend effect origin date follows the final day of the period.
  Not applicable

3．Material changes in shareholders' equity
  As a result of the exercise of stock acquisition rights, capital stock and capital reserve increased by ¥41,553 thousand each.
  As a result, capital stock and capital surplus amounted to ¥60,100 thousand and ¥1,404,277 thousand, respectively, at the end of the third quarter of the current fiscal year.

(Significant subsequent events)
  (Establishment of subsidiary)
  The Company has decided to establish a new subsidiary by resolution of the Board of Directors on September 17, 2021.
  1．Reason for establishment
    The Company's mission is "Update the world for a better tomorrow". The Company aims to solve social issues by digitizing real spaces through the spread of AI cameras with eyes in the city. We are developing and providing various services that can be used in smart cities using image analysis technology based on edge AI.
    The Company has decided to establish Neural Engineering Inc. (hereinafter refer to as "Neural Engineering") as a subsidiary to install, operate and maintain edge AI-equipped cameras and signage devices.
    The establishment of Neural Engineering, enable us to provide AI software, device installation, operation, and maintenance as an integrated group service. A specialized team will be in charge of the operation and maintenance of the equipment necessary for the constant and stable use of Edge AI over a long period of time, creating a system that allows our services to be used with peace of mind.

  2．Details of established subsidiary
  (1) Name   Neural Engineering Inc.
  (2) Address   1-2-2 Yurakucho, Chiyoda-ku, Tokyo
  (3) Representatives   Tsubasa Iwakiri
  (4) Description of business Installation and operation services for edge AI-equipped devices and operational support for edge AI services.
  (5) Share Capital   15,000 thousand yen
  (6)   100%
  (7) Date of establishment   October 1, 2021

  (Business combination through acquisition)
    The Company has decided to acquire whole equity shares in Focus Channel Inc. (hereinafter referred to as "Focus Channel") by resolution of the Board of Directors on October 22, 2021. subsidiary by resolution of the Board of Directors on September 17, 2021.

  1．Reason for acquisition of Focus Channel

The Company has launched a signage advertising service in 2019. The Company aims to provide added value to outdoor advertising by installing digital signage equipped with AI cameras mainly in commercial facilities and office buildings, and accumulating viewing data from passersby and those who actually watch the ads.

Focus Channel has been developing its signage advertising business since 2017. They have been installing signage devices at the entrances of large high-grade condominiums in central Tokyo, and expanding the number of units installed as a pioneer in the signage advertising field.

By equipping the signage devices provided by Focus Channel with AI cameras, the Company will be able to deliver more effective advertisements, thereby providing high value to advertisers and contributing to the digitization of condominium management. In addition, while continuing to collaborate with Wiz Co., Ltd.

, the seller of Focus Channel, The Company will incorporate Focus Channel's sales force and installation know-how into the group, aiming to rapidly expand the number of units installed.

2. Name of the seller
   Wiz Co., Ltd.

3. Name, business description, and share capital of the acquired company
   (1) Name   Focus Channel Inc.
   (2) Description of business   Advertising business and advertising agency business
   (3) Share Capital   20,000 thousand yen

4. Date of the acquisition
   November 1, 2021

5. Number of shares acquired and post-acquisition equity ratio
   (1) Number of shares   2,000 shares
   (2) Post-acquisition equity ratio 100%
   (3) Acquisition consideration   250,000 thousand yen

*1 Advisory fees are not included acquisition consideration above.

*2 In addition to the acquisition consideration, the Company has agreed to pay conditional consideration (the "Earn-out Consideration") to the seller based on the percentage of performance achieved.

*3 The Earn-out Consideration is an additional payment to the seller and will be paid in the range of 0 thousand yen to 150,000 thousand yen if the sales of Focus Channel exceed a certain amount in the first six months after the stock acquisition. The adoption of the Earn-out Consideration will reduce the Company's risk associated with this acquisition and will also have an incentive effect on the Focus Channel side.