Neural Group Inc.

FY2023 Q4 Financial Results Briefing Meeting

February 15, 2024

Event Summary

[Company Name]	Neural Group Inc.
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[Event Name]	FY2023 Q4 Financial Results Briefing Meeting
[Fiscal Period]	FY2023 Q4
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[Time]	12:00 – 12:40 (Total: 40 minutes, Presentation: 40 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	2 Roi Shigematsu Chief Executive Officer Ryosuke Tane Director, Chief Financial Officer

Presentation

Moderator: Now 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 fiscal year ended December 31, 2023. Thank you in advance for your cooperation.

Today's presentation will be based on the financial results presentation material disclosed on our IR site on February 14. We will be sharing screens via Zoom, but if you are joining us by phone, please visit our IR website to view the materials. Also, taking photos, filming, or taking audio recordings of this presentation is prohibited.

Now, I will explain today's flow. First, our Chief Executive Officer Shigematsu will provide a 30-minute presentation on the business overview and performance. After that, we will have a question-and-answer session until 1:00 PM at the latest. Both Chief Executive Officer Shigematsu and Director and Chief Financial Officer Tane 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 Q&A 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.

CEO Shigematsu, please go ahead.

Shigematsu: Thank you very much for joining us for our full-year results briefing. This is the sixth full fiscal year since the establishment of our company, and this was a year of aggressive investment in a variety of areas. Looking at the overview of the industry, I believe that we are now at the social starting point for the penetration of edge AI cameras, which use video AI in the city, or AI cameras in general, not just edge cameras as an industry.

The AI industry is now in a macro environment in which character recognition and chatting technologies, which have been developed ahead of video as deep learning technologies, are beginning to scale ahead of video, mainly in Japan but also in other countries. However, it has been more than 10 or 15 years since the technology was introduced, and I think it has finally reached industrial scale.

As for video AI itself, the development of deep learning programs was delayed by several years than character recognition, but as I will explain later in my presentation of our company's financial results, there was a lot of activity in the development of these then-new technologies by various companies, and then cost competitiveness and platformization were developed in the past 10 years or so, with the aim of making them profitable.

Amid this, most of the companies disappeared, but our company was one of the few that remained. I believe that in the past 10 years, such businesses have been weeded out, as is the case throughout the world. In this context, I would like to give you a hint of what the business of this kind of image AI is and how to monetize it by taking a look at the financial results materials, get a feel for them to help you think about the future development of this industry.

I will now explain our financial results. These are the highlights. It has been about three years since we were listed on the stock exchange, and in that sense, this fiscal year marks a major milestone in our business performance.

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FY2024 ending Dec. (6th term) full year financial and strategic highlights

Establish AI services and business model

- 【Business Model】 Established a series of services for **"visualizing," "broadcasting information," and "monetizing"** of physical spaces through edge AI cameras, digital signages, and ad distribution networks. As a result successfully shifted from a fee-based to a unit-based business model.
- 【R&D】 Established a system in which **cutting-edge AI technology is rapidly implemented and updated remotely**. This not only improves cost efficiency, but also contributes to **strengthened barriers to entry, and ensured customer continuity**.
- 【Partnership】 Issued new shares to Sony Corporation, Kyodo News, and Cross Plus Inc. **strengthening partnerships to expand sales of edge AI services.**

Earnings review and forecast for FY2024

- Through FY2021-23, the company achieved **4.2x sales expansion or an annualized sales growth rate of 61%***1. At the same time invested in R&D, personnel, and material costs, and incurred temporary operating losses.
- FY2024: Planning to grow sales by 16% YoY, **regain quarterly operating profits by Q3**, and become **profitable in operating income for the full year**.
  (※Based on the results of consecutive downward revisions of business performance through FY21-FY23, the company is announcing a conservative case as its forecast for FY24)
  - The effects of cost efficiency improvements, which were initiated in FY2023 Q3, have **already started to realized from FY2023 Q4**.
  - Planning to complete various efficiency measures by the end of June, and expect to achieve **quarterly operating profits from Q3**, achieve **quarterly net income during H2**, and achieve **operating profit for the full year**.
  - Quarterly operating profit margin of **10% level in Q4**

*1 Calculated based on compound annual growth rate (CAGR) from sales of 762 million yen in FY20220 to sales of 3,178 million yen in FY2023.

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We will establish a business model by converting the AI technology in the video domain, which we have been working on for the past three years since listing, into a service. As is now happening in the field of generative AI, which was popular at the time, various companies are interested in trying this kind of generative AI, and are now offering contracts to AI companies, which is now being done even further behind the video. This is exactly what is happening now in the generation AI.

The technology for video systems was developed more than 10 years ago, and as the establishment of service models progresses, our company will process these business models with video systems and video cameras using edge technology. We are not just using AI cameras to visualize the world, but in addition to such visualization, we are also using the information from around the town to disseminate information. In the past three years, we have developed a series of business model that not only transmit information but also generates revenue through advertisements, news, and other means.

Next, we were able to build this business model, but behind the scenes, it was extremely important to develop the technology. Our company is involved in a variety of detection technologies, especially in the video and audio domains, and we have been researching, developing, and building infrastructure for these things for a long time, and this has completely reached the commercial level.

New AI models and other cutting-edge AI technologies are constantly emerging from academic societies and academic fields, and new algorithms from the world's most advanced academic fields are implemented and updated on our computers at high speed and remotely. This automatic update is the same as with Tesla cars and iPhones, but when these AI cameras are connected to the Internet, where our edge AI is connected via LTE communication, such new AI technologies will be created automatically and rapidly.

The same is true of the display. The same is true for display technology, and we have also been developing technology for the edging and networking of information dissemination in towns throughout the world by automatically and remotely updating display methods and ad delivery systems.

In this way, what is good about the new AI technology coming in is not only that it will improve detection accuracy and convenience of delivery, but also that the cost of introduction will actually reach the level of so-called industrialization, i.e., the efficiency of introduction costs. This is extremely important, but by being able to do this, edge AI services can go from being something that only a few companies do or a hobby to being indispensable and easy to implement, to the point where they are actually used. We believe that this is the first time that we have achieved this scale.

This will not only help us to scale, but it is also important for us to increase our profitability through this process. Profitability will improve by improving cost efficiency through the development of technology platforms.

In other words, this would become a barrier to entry and lead to customer retention. In that sense, we are forecasting that sales will be profitable in this fiscal year of 2024 and net profit in the second half. We believe that the fact that we are able to generate such profits is actually the result of building a business model and developing technology.

In this context, we were able to form partnerships with three companies in FY2023: Sony Corporation, Kyodo News, and Cross Plus. We have announced that we will expand sales of edge AI services and media creation through our partnerships with these outstanding companies, and I believe this was a very significant initiative.

Sony in particular, as you all know, is a company that owns a wide variety of media, entertainment, hardware, equipment, and a global network. Kyodo News has the largest and overwhelming share of the Internet media market in Japan. It would not be an exaggeration to say that they unite the media, and with the guidance of these companies, we will actively utilize news articles in our media and promote the attractiveness of such media creation. We believe that these partnerships were the result of AI's services and established business model.

On the other hand, looking back at earnings, the sales growth rate was 4.2 times during the three years from 2021 to 2023. The annual growth rate is 61%, or a 1.6-fold increase in sales each year. In the current FY2023, we recorded a one-time operating loss as a result of aggressive investment in personnel and R&D expenses, but this will be eliminated in 2024.

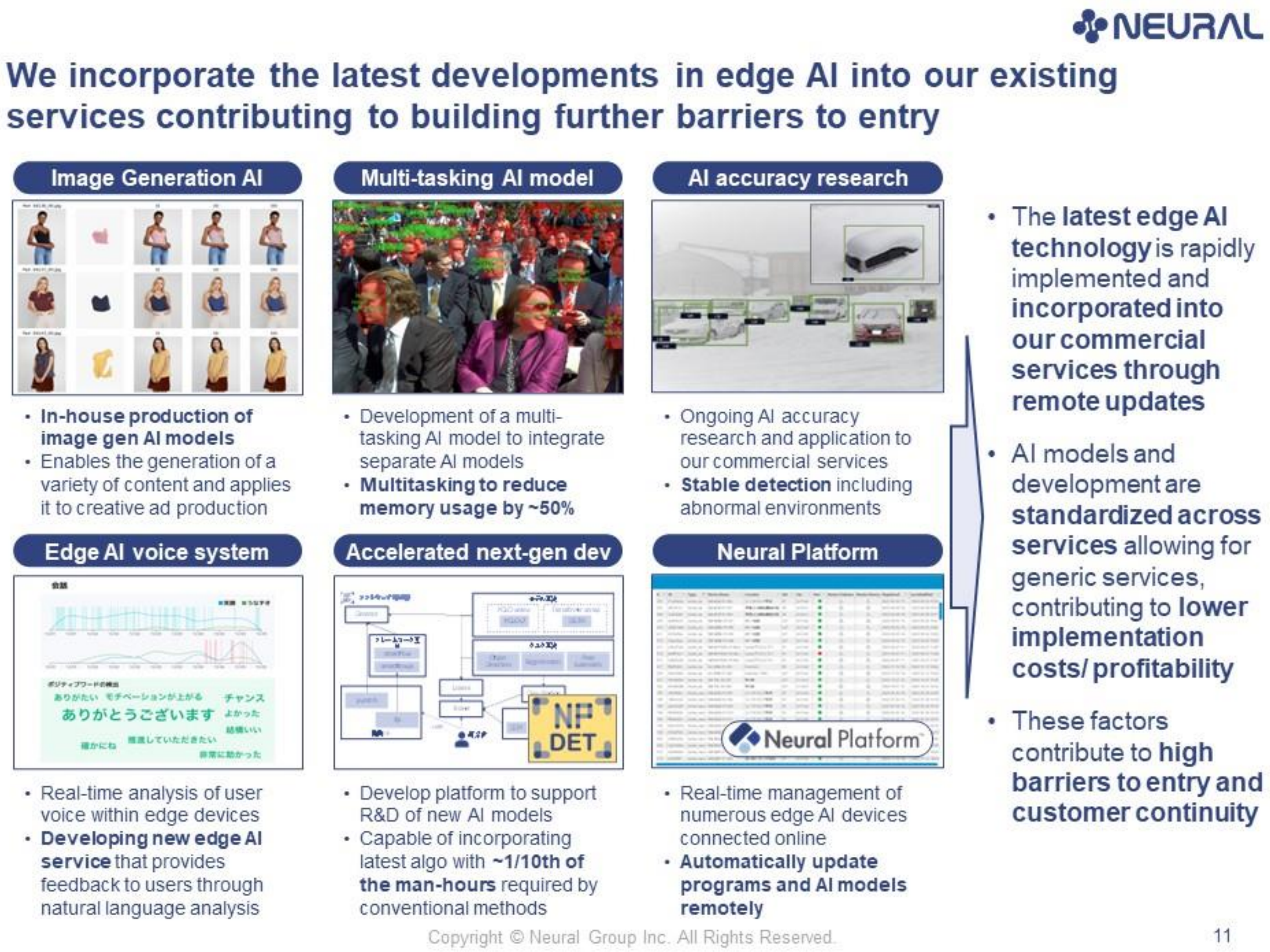
We do not plan to make any new investments in personnel in 2024, but we plan to expand sales by 16%, and we expect to be in the black for the full year, but we hope to turn to profitability around the third quarter.

Also, we mention various cost efficiency improvements, but this is our scaling. This has actually been in place since FY2023, but the cost of materials associated with the platform through the development of these new technologies. We are connecting edge devices and LED devices to our edge services, and we are working with external partners to reduce the cost of such devices.

Or make it common. Alternatively, we will update the foundation of our technological development so that even if the specifications of the necessary materials deteriorate, we can still obtain the same quality. We have been doing so for a long time, and the effects of these efforts have already been seen in the fourth quarter of 2023, and in the first quarter of FY2024, which is now underway, profitability has been significantly enhanced.

We are planning to turn around our operating surplus and net income every quarter during the term, and we would like to aim for an operating profit of 10% in the fourth quarter as our final year-end figure.

From FY2025 onward, we are committed to achieving profitability and a scale that will allow us to exceed that level of profitability.



This is an overview of our business. This has already been explained in past financial results, so I will omit it, but I would like to explain some highlights on page 11. Regarding our video AI technology and edge AI technology, very little is disclosed to the outside world in terms of technology, but if we were to summarize the past year in our financial results, we have been conducting research and development in these six areas.

One is the image generation AI model, but in this case, we will focus on these videos, and although this is both images and videos, it is important to automatically generate these characters, their costumes, and their movements. This not only expands the range of creativity, but also reduces costs, and we have been actively investing in new products.

The reason why we are doing video is that our business itself is a company that deals with AI for video, so we are focusing on video generation rather than text.

At the same time, in the video domain, a multitasking AI model is actually gaining popularity, which is a worldwide trend. In the past, object detection, such as detecting a human face, detecting facial expressions, or tracking movement, was actually done by building separate AI learning models. The conventional analysis method was to run the three I mentioned simultaneously in one processor and obtain results independently from each other.

The latest overview of such AI models is actually quite different from that. It is this multitasking type. The trend now is to be able to detect multiple things in a single AI model and to do so simultaneously.

What is nice about this is that by integrating several such models into one, memory usage is greatly reduced when performing a single task. This not only improves processing speed, but also greatly reduces the amount of hardware required. By doing this, we can reduce the investment and cost for customers to implement these models and AI services. In other words, our company's profitability would also increase, which was a win-win situation.

At the same time, regarding the AI accuracy research shown in the upper right corner, this has also reached this level, but in the area of autonomous driving, various automobile OEMs have been developing these systems for about 10 years as they raise the level from Level 3 to Level 4 of automated driving. However, the industrialization of automated driving has been hindered by the detection of such images in abnormal modes.

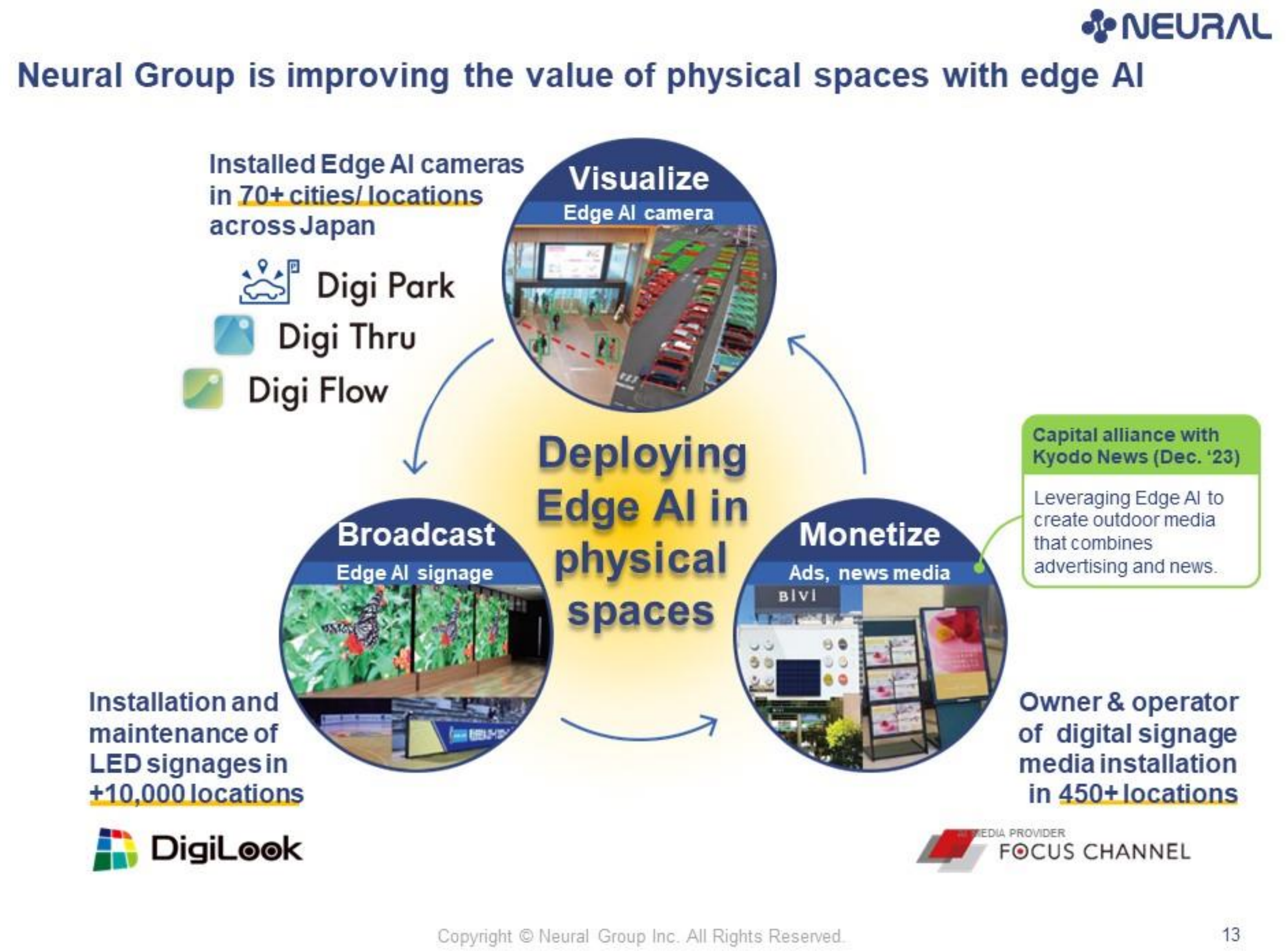
Autonomous driving has been carried out frequently for about 10 years, especially in the city when the weather is sunny and on expressways. However, when the vehicle goes down into town, or when it is in an abnormal mode such as rain, at night, or in snowy areas, the accuracy of automatic driving is greatly reduced, and accidents occur. Or the problem was that the automatic operation itself could not be controlled. The struggle against these factors was the main obstacle to the development of the imaging field.

We also provide this kind of AI service from heavy snowfall areas to subtropical regions, especially when there is snow that hides cars. In many of these areas, we provide our services 24 hours a day, 365 days a year, and we are now able to detect abnormalities with a high degree of accuracy.

We are planning to scale up to larger operators nationwide from FY2024 onward, and in doing so, it will be indispensable to respond to such abnormal modes. We are now at the point where we can do so.

Below, especially the edge AI voice system. This is the media version of our company's AI. Of course, video services are our greatest strength, but there is a growing need for AI services with more interactive performance. We are currently developing a new interactive edge AI service by analyzing not only video but also voice and human behavior in this edge.

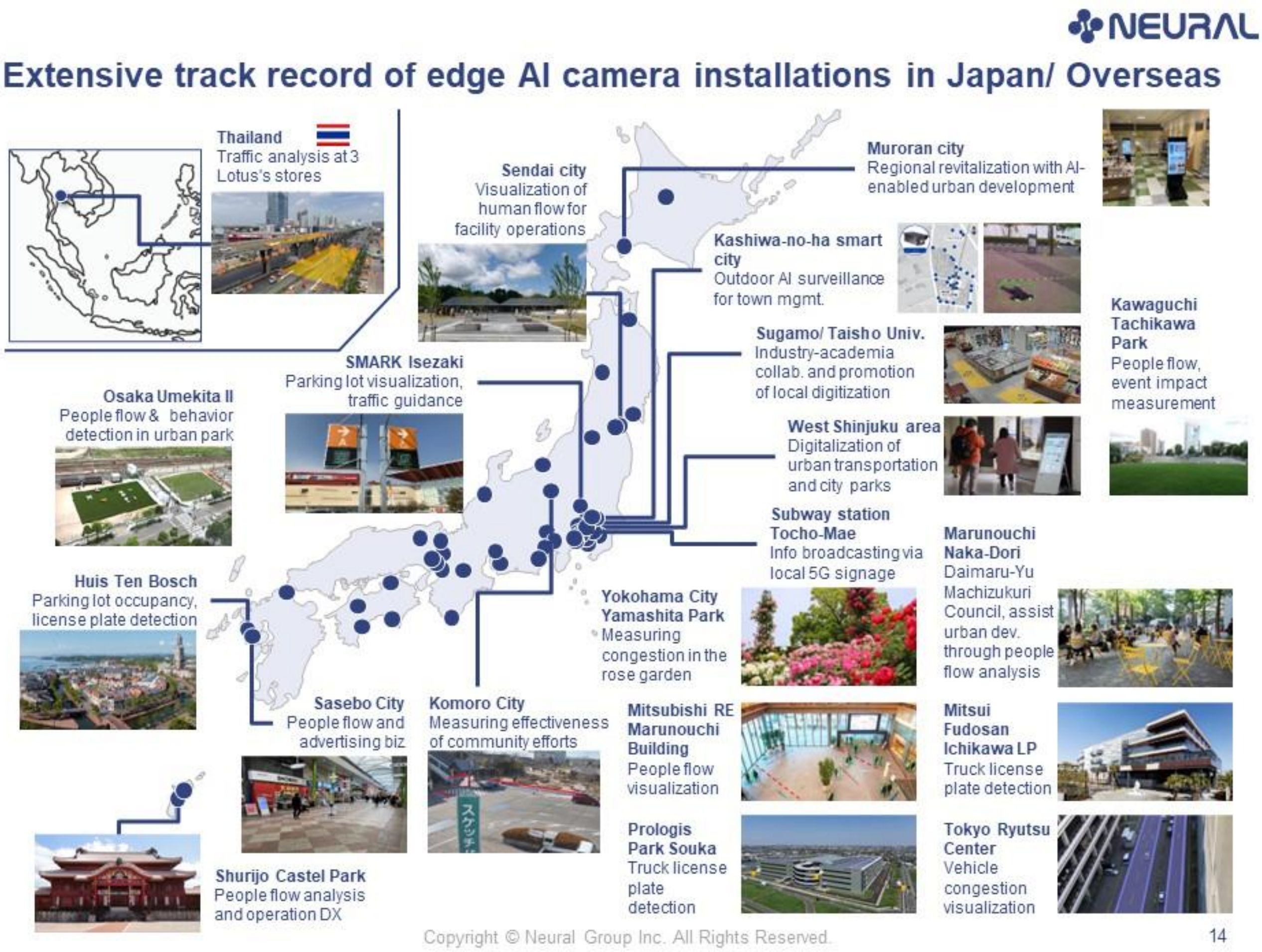
Next, the bottom two on the right are the back-end technology systems, which are a bit difficult to understand, so I won't go into them here. Next-generation AI model and a platform called NP DET, or the Neural Platform. This is like a myriad of edge AI devices that are connected and automatically managed. You can think of it as something like Apple's iTunes, but it has been operating as a service in our company for a long time, and this kind of stable operation is the technology that supports this kind of scale.



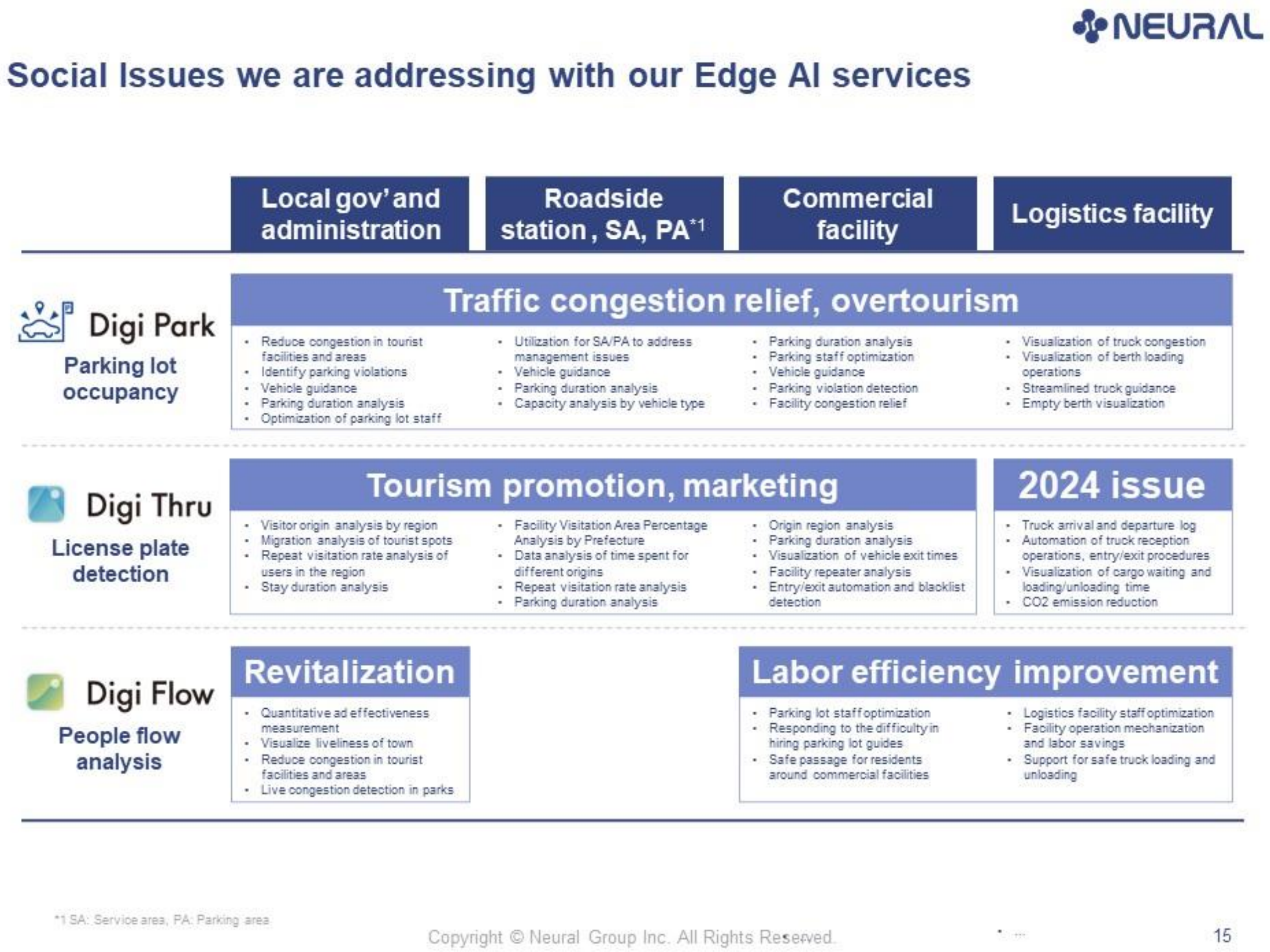
So, looking back at our business model, on page 13 is our business model. This is the result of this three-year activity.

The video AI visualizes information about the inside of towns, inside and outside of facilities, people, traffic control, and other comprehensive information. This is where everything starts. Based on this, we will disseminate information. This is LED signage or vision for outdoor use. In addition to the dissemination of this information, the company will monetize it. While we of course support our clients in generating revenue, we also believe that creating media such as advertising and news media for monetization is a way to improve the value of the space through a series of edge AI.

Once this is monetized, the profit information will be visualized again to measure its effectiveness. We will further visualize this, disseminate more information, generate revenue from it, and measure its effectiveness through visualization. This cycle of events creates continuity in the user experience, and we believe that this leads to customer retention and convenience of life in the town. Amid all this, I believe that our track record has improved considerably over the past six years.



This is just one example of the visualization of these activities, which are now being used throughout Japan, from Hokkaido to Okinawa, as well as overseas, such as in Thailand. There are many local governments and real estate customers who use this type of service, so there is a lot of information that cannot be disclosed, but this type of service is becoming more and more widespread throughout the world.



I'm talking about visualizing business models in this process, but what we've been doing for the past three years is actually directly responding to various town issues. In fact, this is the real thrill of AI cameras and the fun of running this business.

This is our DigiPark if you look on the left side. It is the AI algorithm for detecting parking lot fullness. DigiThru, which is an algorithm for detecting vehicle numbers. DigiFlow will track people flow. Of course, vehicle tracking will also be included, but the flow itself will be analyzed.

We mainly provide these three types of detection, but as you can see on the right-hand side, there are actually several types of detection for each customer. One major block is the contribution to town development activities by local government administration, and the second is businesses that are involved in creating a bustling town, such as roadside stations, service areas, and parking areas, safe road management, or traffic control, .

Commercial facilities, this is a commercial bustle. Then there are logistics facilities. While hiring drivers is difficult these days, the volume of goods itself is increasing extremely rapidly through e-commerce. Also, international logistics is also becoming more and more active. There is a need for logistics facilities under this situation. We are solving these problems with our services, but broadly speaking, we are actually supporting the social issues in these five boxes for each business operator with our AI services.

One of the ways was to alleviate traffic congestion and over tourism through DigiPark. In fact, even though the same AI detection is used, as you can see in the bulleted list of examples below, our customers are actually using our same service to solve various social issues.

As you can see, there are about 20 items in the "traffic jam mitigation and over tourism" section, and this is an example of horizontal integration where we were able to provide and use the same service for all of these different social needs, without having to customize them one by one.

Likewise, there are tourism promotion and marketing, the 2024 issue, local revitalization, and securing guide staff. This is also difficult, but our DigiPark, DigiThru, and DigiFlow products provide value in automating and saving the labor of guide staff.

The reason why we mentioned at the beginning of this report that in fact, we feel every day in the field that the era when each business operator used this technology as a technology is actually over, and the customs have been established for customers to use such AI technology on a daily basis as a normal and essential function and service. We feel that this is actually a response to scale.

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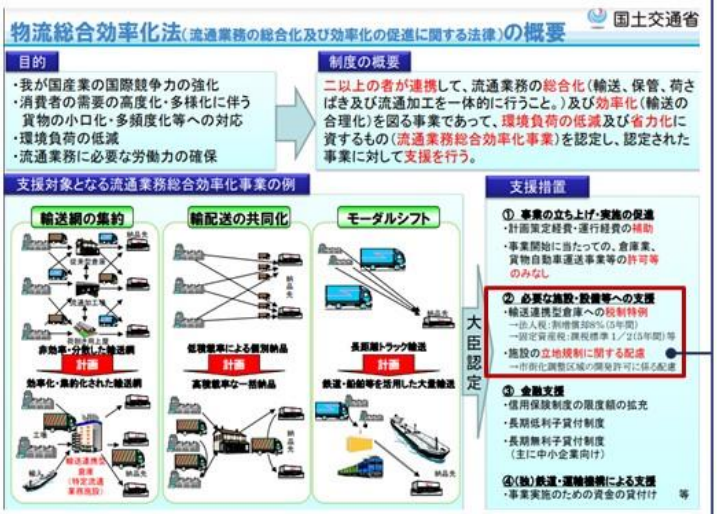
Market tailwinds: New government policies encouraging private company AI camera usage via tax break



The Order and the Tax Reform Syllabus for 2024 (Dec 22nd 2023, Cabinet decision)

(6) With regard to the specific measures for the tax base of fixed property tax and city planning tax for certain houses and depreciable assets acquired by business operators certified under the Act on the Promotion of Comprehensive and Efficient Distribution Operations based on a comprehensive efficiency improvement plan, the following revisions shall be made and the applicable period shall be extended for two years.

In addition to **adding license plate analysis AI cameras, etc.** to the list of attached machinery and equipment subject to application , the **tax base for license plate analysis AI cameras, etc. will be reduced** to one-half of the price for the first five years.

AI cameras recognized as eligible for property tax reductions

Accelerates client companies' adoption of AI cameras

Left: Refer to the Ministry of Land, Infrastructure, Transport and Tourism, Comprehensive Logistics Efficiency Improvement Act (https://www.mlit.go.jp/seisakutokatsu/freight/bukkouhou.html#section-1)
Right: The Order and the Tax Reform Syllabus for FY2024 P54 (https://storage2.jimin.jp/pdf/news/policy/207233_1.pdf)

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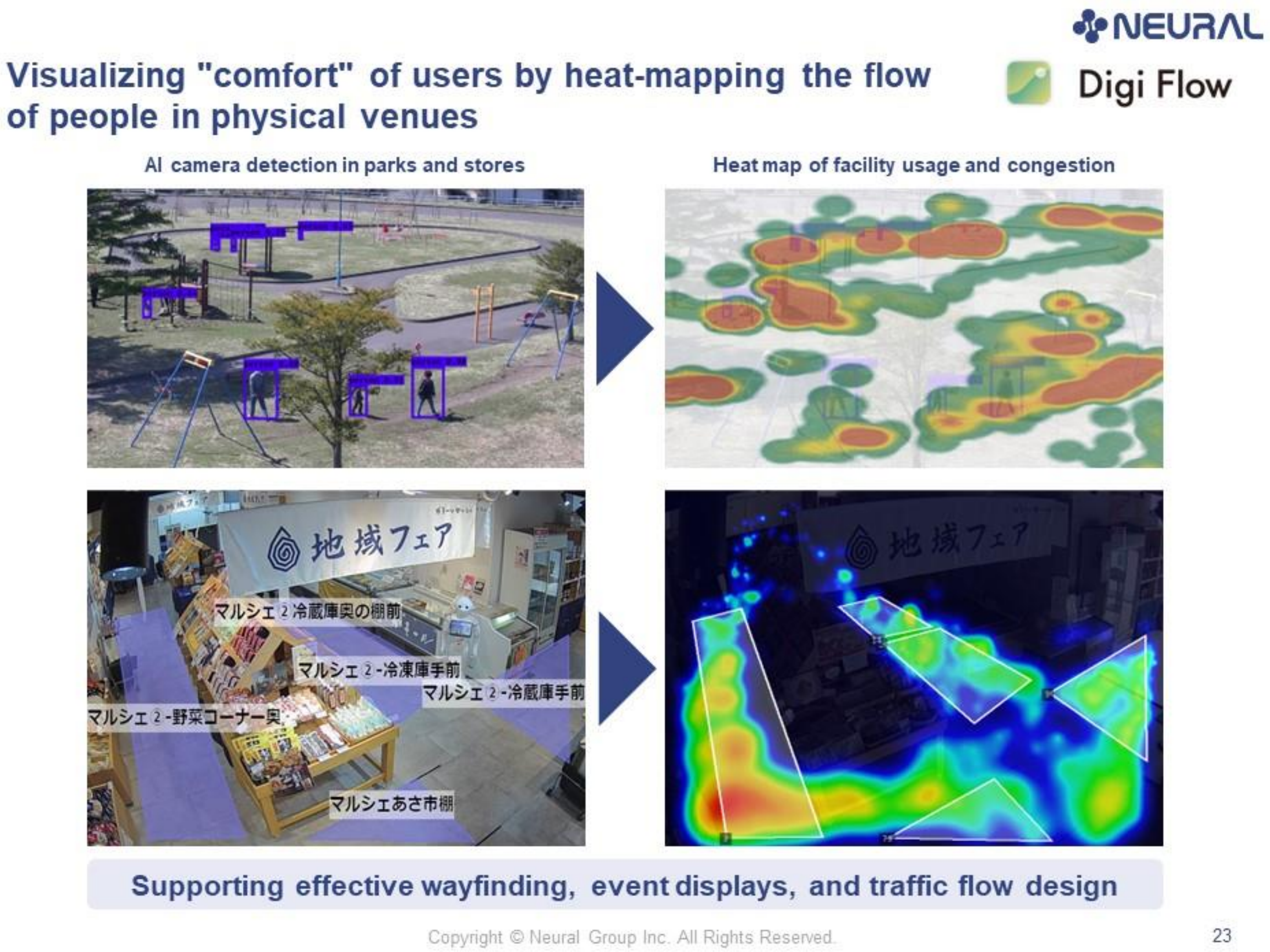
In particular, I think that the fact that these things have recently been linked not only to private companies, but also to policy, is providing a boost to the macro environment.

This is an example from a Ministry of Land, Infrastructure, Transport and Tourism material. This is an excerpt from the summary document of the Logistics Comprehensive Efficiency Act released by the Ministry of Land, Infrastructure, Transport and Tourism, and I introduced it earlier as an example of the social need to improve logistics efficiency as part of the 2024 problem.

As shown on the right side, as one way to solve this problem, they announced to provide tax support and preferential treatment to private businesses that capture and analyze license plates with AI cameras. Regarding this announcement, I feel that there is considerable progress recently in incorporating this into policy, and I believe that this is an example of actual social change.

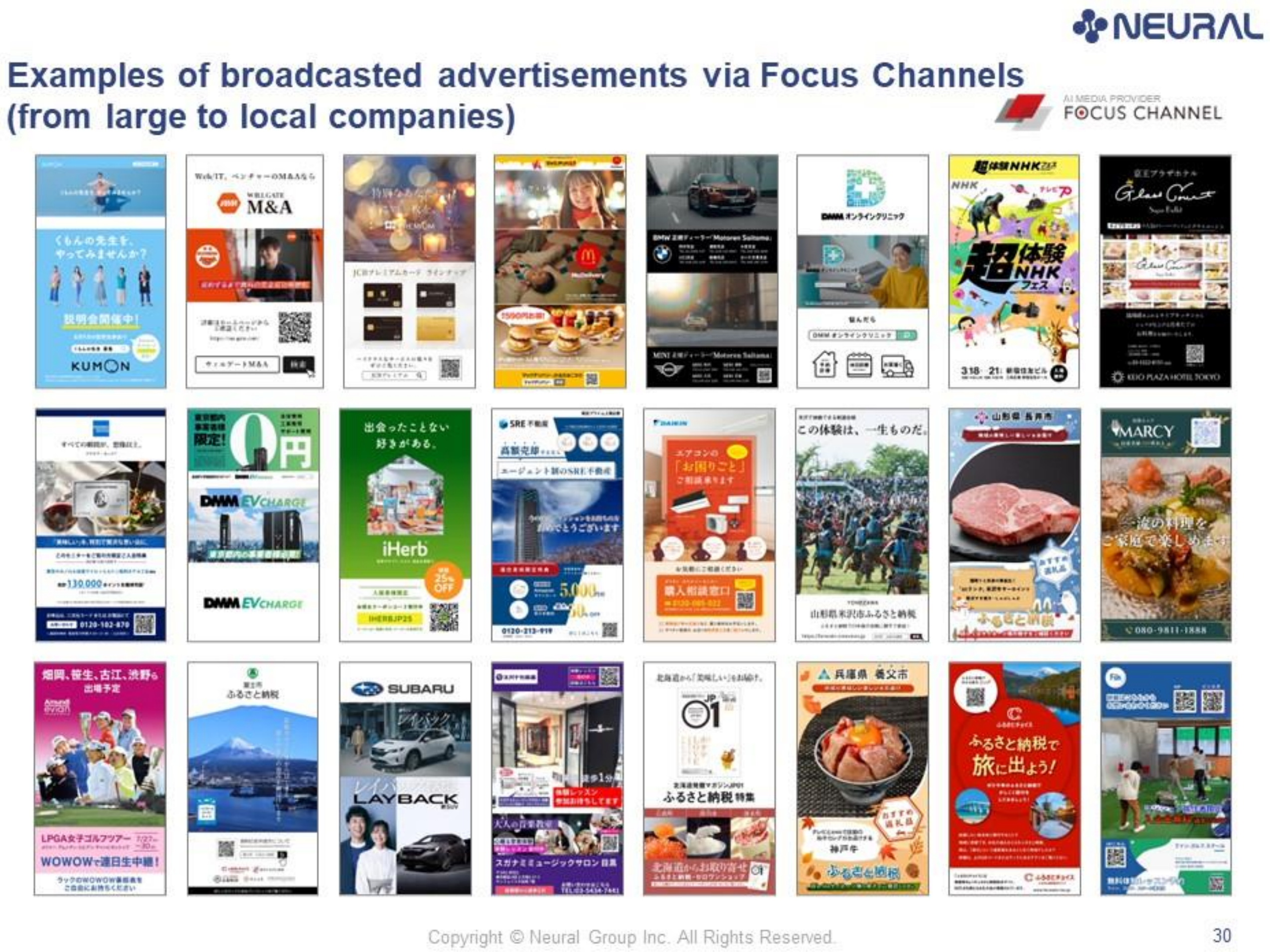
I will not go into the details of each of our services, as you can see in our materials.



Although we have shown examples of a wide variety of services in many pages, the AI detection itself that is running behind the scenes is the same. The same several types of AI are running. However, even though we are talking about several types, we are not actually using the same ones all over the place, but rather, by using the multitasking type of processing I mentioned earlier and by making full use of platforms, we are making it possible to utilize a single AI model, or several AI models, to different social needs horizontally as I mentioned earlier.

I would like to talk about display. I mentioned earlier about visualization and now this is about display. The LED visions have been installed in 10,000 locations and continue to sell well and hold the largest share of the domestic market.

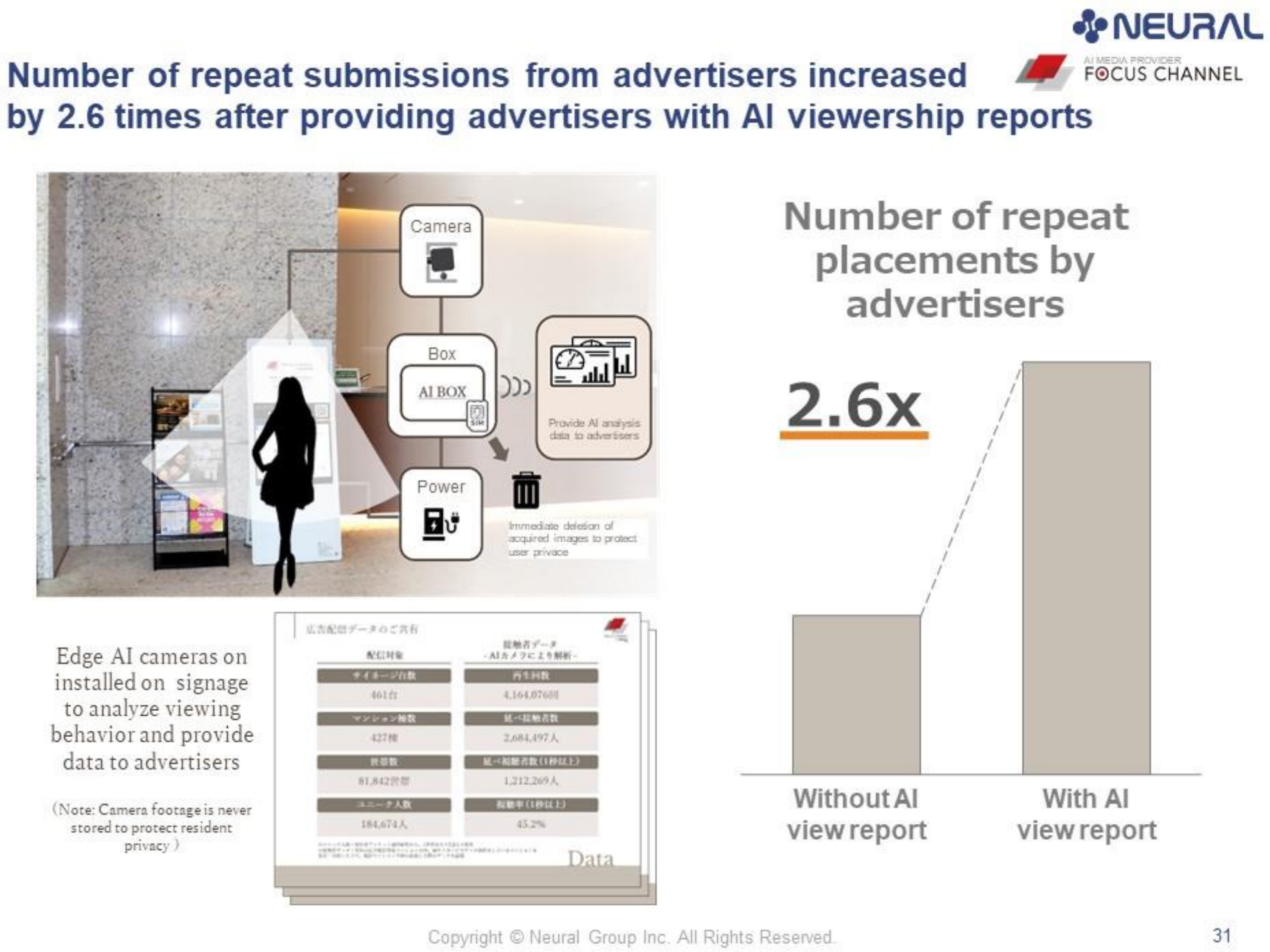
The other thing is monetization, “Focus Channel”. We are number one in the condominium signage industry, and just recently, we were selected for condominium signage in Media Radar's comprehensive advertising rankings, and we were also selected in the wealthy category. This is the Bispa Award, and since we are number one here, we believe that recognition as a media is expanding mainly among advertising agencies, and that this is increasing opportunities for our clients to make proposals to us, or for them to contact us directly. We believe that the number of such opportunities is increasing.



Page 30 is an example of this year's ads, and we hope you will find a variety of enjoyable and lifestyle-oriented content in the ads.

I think it's easy to get an image of taxi advertisements these days, but there are a lot of them that are quite different. The majority of the ads are mainly B-to-C ads. The reason why B-to-C is that the best part of AI cameras and AI technology is to make our daily lives more enjoyable through advertisements and media creation using such AI technology. As you can see from the example of these ads, you can encounter new information.

We also provide support for high-speed AB testing by using AI cameras behind the scenes to measure the effectiveness of these ads and provide better feedback to advertisers. I feel that such things as measuring viewership in the TV industry or conversions in the online advertising industry are becoming more commonplace in real-world advertising as well.



This is the effect of the AI Report. The AI Report was fully deployed to each facility around the middle of last year, and the repeat rate of advertisers has increased 2.6 times. This is an example of how AI technology can contribute to the continuity of our business and the generation of recurring sales, which is the most important aspect of our business.

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Advertising operation business on large LED display launched Oct. 2023

We launched an ad management business as a dedicated agency (media rep), utilizing our know ledge and sales network in ad sales, ad broadcasting, and operation through our Focus Channel operations

Neural responsible of media reps (Examples of partner agencies)

dentsu
HAKUHODO 東北博報堂
ADK
jeki
河北新報社
tbc 東北放送
ICHICO 株式会社 第一広告社

Examples of Advertising Sponsors

DIO CLINIC
Human Wave ヒューマンウェイブ
MARUHAN

Llarge LED vision system at BiVi Sendai Station East Exit, an urban commercial facility adjacent to JR Sendai Station

As a full-time advertising sales agency, we are currently airing advertisements in partnership with 20+ Sendai-local advertising companies

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Now, let’s shift our perspective from outside the apartment to the outdoors. This is an example of the East Exit of Sendai Station. We are doing media reps for this kind of outdoor vision as I have stated in previous financial results.

This is an example of a recent advertisement. Sendai Station is not only a designated city in the center of Miyagi Prefecture, but also a city in the entire Tohoku region. In fact, it plays the role of a central city, but what I personally think is very wonderful about this is that I think this shows that various information, content, and entertainment from the entire region are coming together in this type of media.

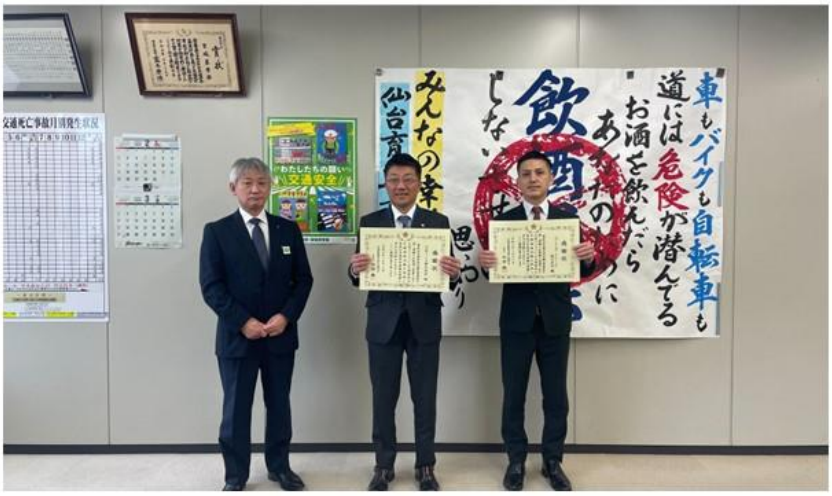
The Tsuruoka City Aquarium in the upper right corner is an aquarium in Yamagata Prefecture, and as I said, this is an example of advertising distribution that creates opportunities for citizens from Sendai to visit facilities in Yamagata Prefecture. However, by increasing Sendai's appreciation of its role as a regional hub, our company supports activities that promote the development of the entire region.

In this context, monetization is of course important, but another aspect is to ensure the safety of citizens' lives in the community, and we believe this is one of the key aspects of media creation. This is actually administrative information.

Activities at a large outdoor advertising vision in Sendai: Certificate of Appreciation from the local Miyagi Prefectural Police

Free airing of traffic advertisements on the large advertising screen at the east exit of Sendai Station, which is installed and operated by the Company

The awarding of a letter of appreciation at Miyagi Prefectural Police (February 2024; right: Mr. Shibuya, Sendai Branch Manager, Neural Marketing, Inc.)



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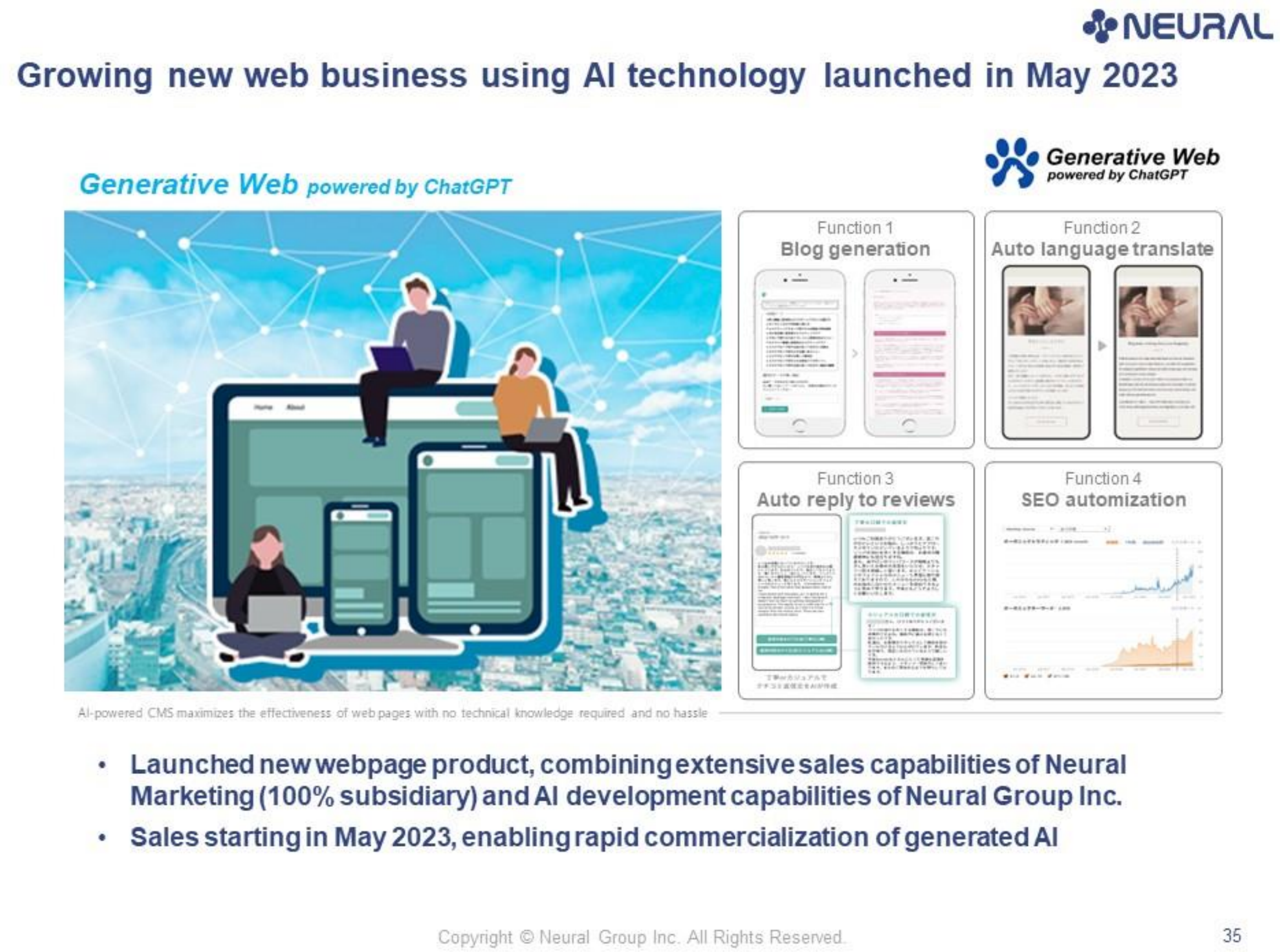
Regarding the information dissemination that precedes monetization, the Miyagi Prefectural Police was broadcasting information on the eradication of drunk driving for free using this BiVi vision. In February, this month, we received a letter of appreciation from the police, who told us that we had made the citizens aware that they would not drink and drive again.

The services we provide are, of course, video AI services, but I believe that this is an example of the direct contribution we have made to the citizens of society, and we will continue to actively make such contributions and efforts to society.



This is the generation AI that we have been working on since mid-2023. It uses ChatGPT, so it is not our internal engine, but we provide a service on the web that calls this kind of thing with a prompt and connects it to the service. This one has a pretty good reputation. As for last year, the Company achieved a certain level of sales.

This is a new experiment that does not involve our engines, but it is an example of the fun we are having in this research area, and we are also working on such activities.

FY2023 ended Dec. Business results

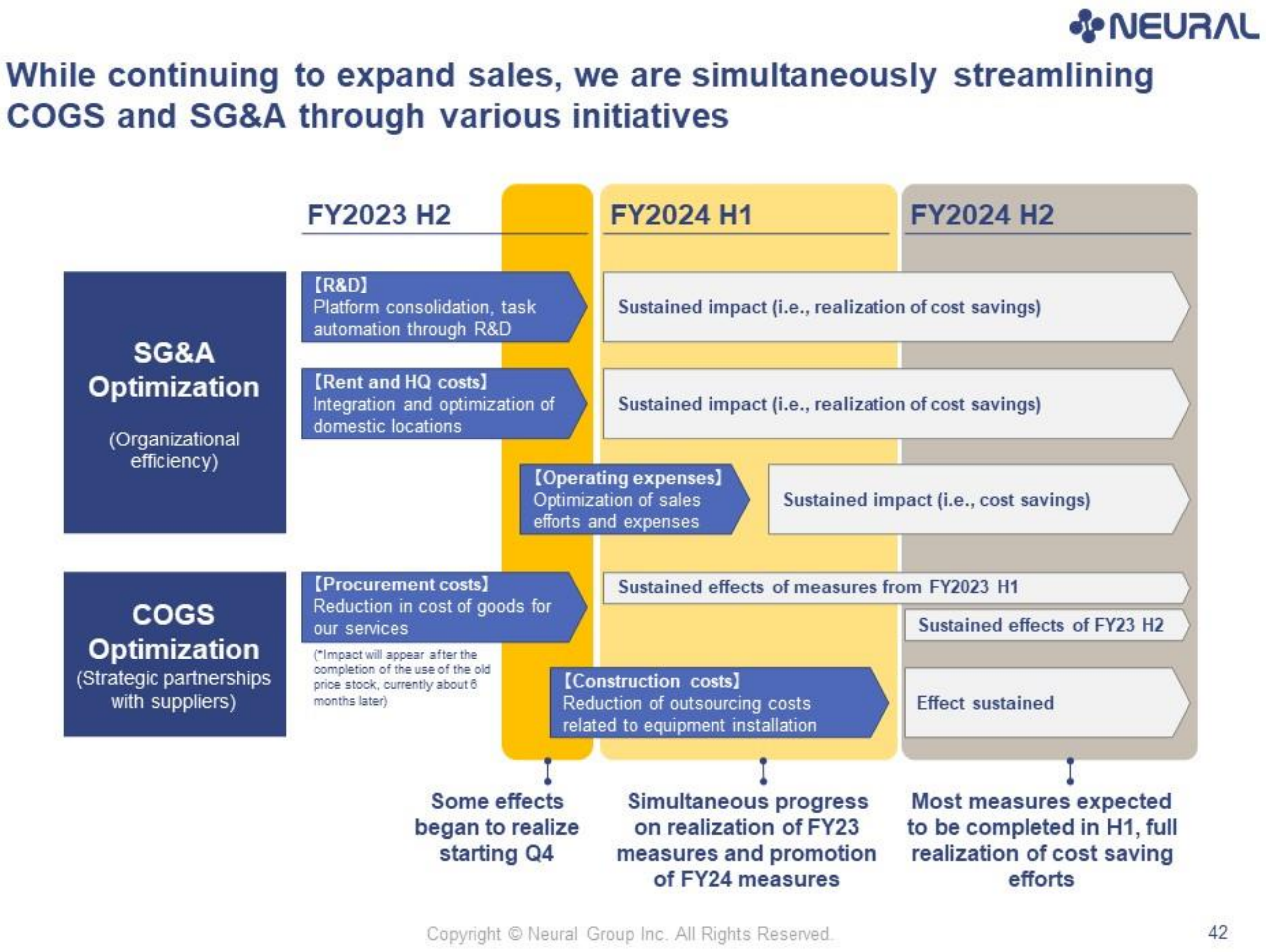
(million JPY)	FY2022 ended Dec. results	FY2023 ended Dec. results	YoY value	YoY percentage	FY2023 ended Dec. forecast
Net sales	**2,878**	**3,178**	**+299**	**+10.4%**	**3,200**
Gross profit % of net sales	**1,849** *64.3%*	**2,063** *64.9%*	**+213**	**+11.5%**	**2,100** *65.6%*
EBITDA % of net sales	**-22** *-0.8%*	**-490** *-15.4%*	**-468**	**-**	**-440** *-13.8%*
Operating profit % of net sales	-311 *-10.8%*	-658 *-20.7%*	-347	-	-630 *-19.7%*
Net income % of net sales	-909 *-31.6%*	-650 *-20.5%*	+259	-	-630 *-19.7%*

Despite a short-term increase in expenses and an operating loss resulting from the business model shift, the company expects to return to operating profitability in FY2024 (more details on the next page)

I guess I don't need to go over the business model again. It is as I mentioned earlier.

Here are the financial results for 2023. Sales were JPY3,178 million, and gross profit was JPY2,063 million, or 64.9% of sales.

As a result of actively investing, we were temporarily in the red on the bottom line below EBITDA, but we have a very detailed understanding of what we invested in, and we have already made plans for fiscal 2024 to resolve the issue. Therefore, I feel that there will be no problem in building profits in fiscal 2024.



In this context, we have been working to turn the investments I mentioned earlier into muscles through these technology development platforms and various efficiency improvements. We have been conducting these activities since about the second half of 2023.

The top three of the four blue boxes represent the efficiency improvements in SG&A expenses from a financial perspective, and the bottom two represent the reductions in cost of sales from a financial perspective.

Improving the efficiency of SG&A expenses means making the organization more muscular, but this also means saving labor and automating development through the technology development platform I mentioned earlier.

We are consolidating some of our bases in terms of land rent, and we are also trying to make the sales organization more efficient. Last year, we hired 70 people, and although not all of them remained, we were able to strengthen their skills, and the remaining members were quite excellent salespeople, so we were able to create a healthy cycle.

As for the cost of goods, which is the cost of equipment for our services, I believe that we have almost completed all of our activities in this area. As for the appearance of the effect, it will be divided into both the first and second half of FY2024.

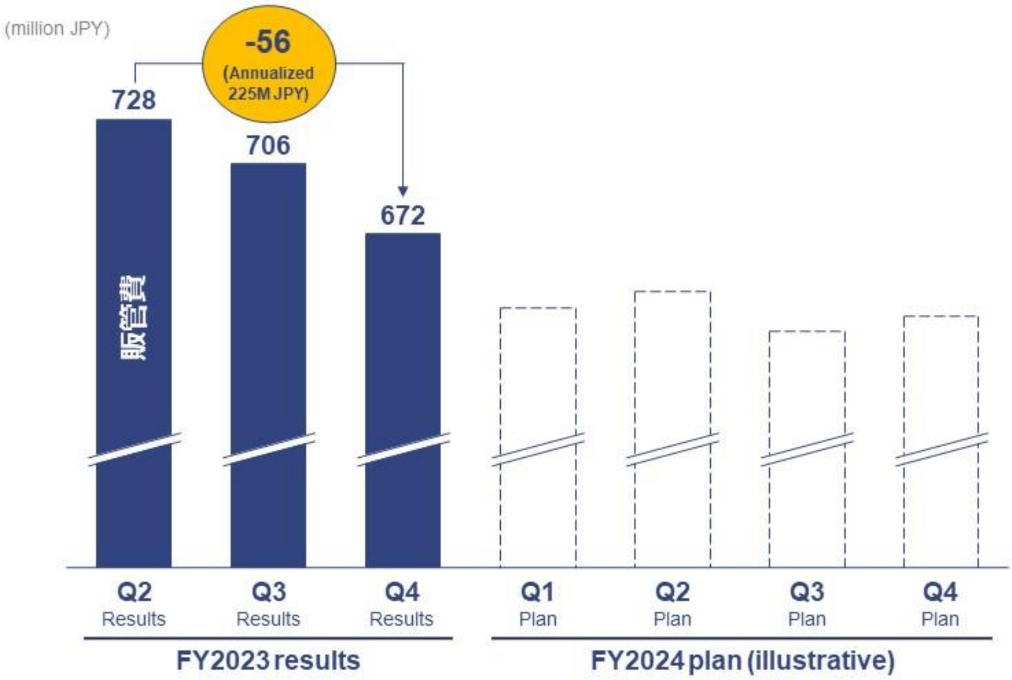
The reason for this division is that the new price is reflected in the PL after the past inventory has been consumed, and although there is a time lag, we believe that the activity has been completed.

Installation cost, which is the outsourcing cost of performing the installation, and it is just now being implemented.

So, the activities we have conducted in the second half of FY2023, especially R&D, land rent, and cost of goods, will begin to bear fruits from the first half of FY2024. We are currently working on the things that will contribute to profit generation and outsourcing of sales and installation, which we expect to begin to appear strongly in the second half of the year. However, when I said that we will turn to profitability in the second half of 2024, I was talking about top-line sales, in which we will expand sales of our high gross margin services. In addition, the cost to achieve this will continue to decline.

The reason for this is the result of the development we have made so far, such as the standardization of platforms and automatic updates, and I think this will be the year when these things come together.

We have already made significant progress in the second half of FY2023 for SG&A spend through optimizing R&D and Sales efforts



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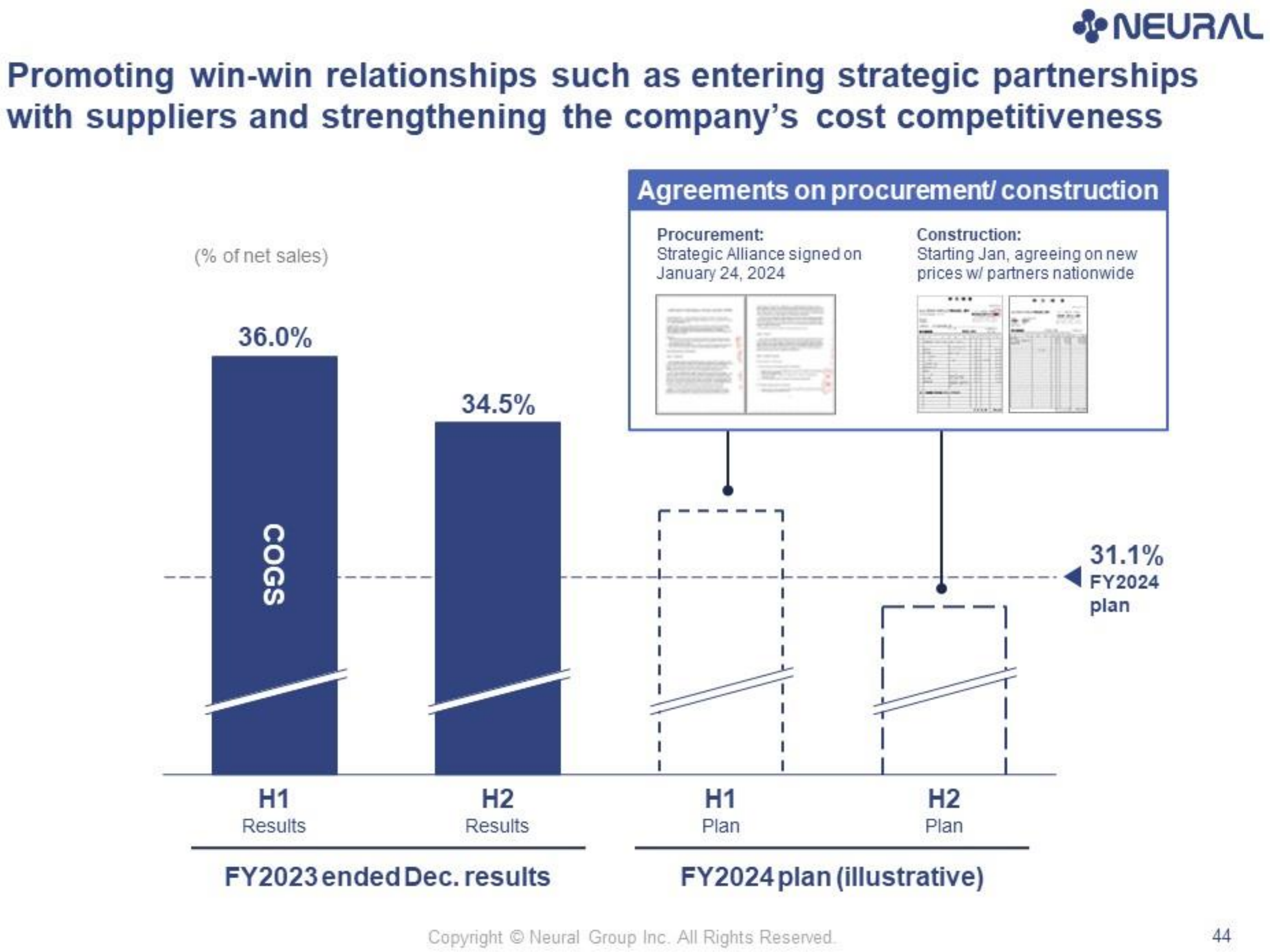
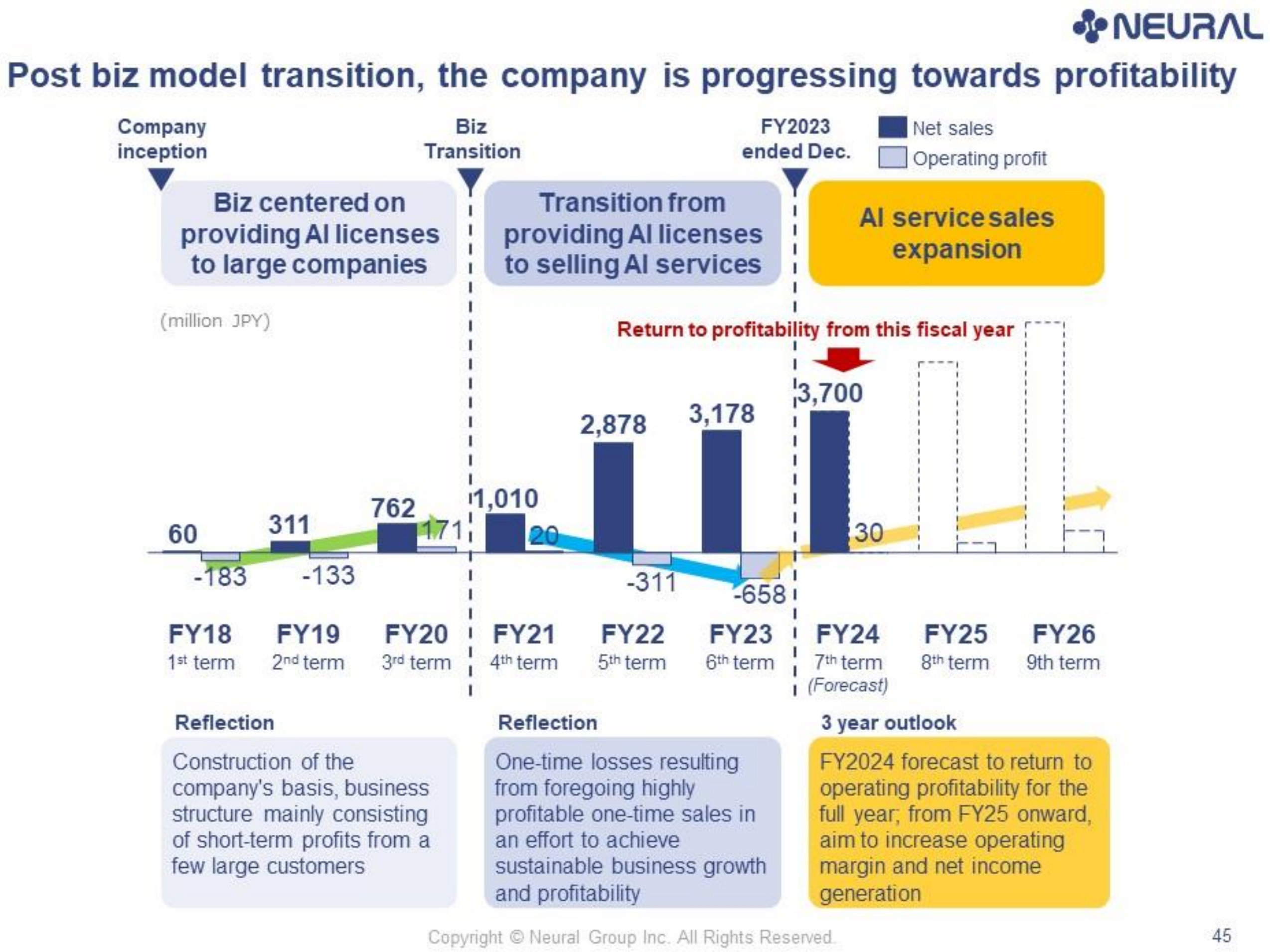
The SG&A expenses have already begun to decline steadily in 2023, but we are making a conservative forecast for 2024.



It is the same with regard to cost. What it means for the cost of goods to go down is that the gross profit margin goes up. The gross profit level for FY2024 will be 70%, and I believe that improving gross profit margins is an extremely important management element, as it will create new investment capacity.



As I mentioned in the third quarter financial results, looking back, we have just completed our sixth fiscal year. In the first three fiscal years, we went public by providing AI licenses mainly to large companies. On the other hand, we have been providing AI licenses for the first three years, and while providing licenses, we were also creating the basis of the AI technology we are using today.

The first three years of the project were spent developing the basics of AI technology, including AI detection and ad delivery systems, which were then used to provide unique services. As I mentioned earlier, as a result of this, services have started to scale. I think the visual field is now at the starting point of scaling up, a few years behind text and audio.

As for this fiscal year, I think we will be able to achieve an operating surplus and net income on a quarterly basis, as I mentioned, but for the full year, we are planning to be in the red on corporate taxes, etc., but we will confidently move forward.

NEURAL

FY2024 ending Dec. Forecast (consolidated)

(million JPY)	FY2023 ended Dec. results	FY2024 ending Dec. forecast	Increase Value	Increase Percentage
Net sales	**3,178**	**3,700**	**+522**	**+16.4%**
Gross profit % of net sales	**2,063** *64.9%*	**2,550** *68.9%*	**+487**	**+23.6%**
EBITDA % of net sales	**-490** *-15.4%*	**180** *4.9%*	**+670**	**-**
Operating profit % of net sales	-658 *-20.7%*	30 *0.8%*	+689	-
Ordinary profit % of net sales	-686 *-21.6%*	0 *0.0%*	+687	-
Net income % of net sales	-650 *-20.5%*	-120 *-3.2%*	+530	-

- Based on the results of consecutive downward revisions of business performance in FY21-FY23, the company is announcing a conservative case as its forecast for FY24
- Planning to complete implementation of various cost optimization measures by Q2, and to achieve quarterly profitability in each of Q3 and Q4
- Expecting operating margin at 10% level in Q4
- Projecting a loss in final profit for the full year due to income taxes, but net income is expected to be in the black by the end of the second half of the fiscal year

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Lastly, page 47 shows the forecast for FY2024.

JPY3.7 billion in sales, 68.9% in gross profit, 4.9% in EBITDA, and 0.8% in operating profit. We are forecasting that net income will be -3.2%. Although we have a separate internal budget, we have presented and disclosed figures with a significant haircut from our initial forecast.

The reason for this is that we were unwilling to revise our budget downward for three consecutive fiscal years from 2021 to 2023, even though we were building new services. However, we are determined to achieve the budget in 2024 to show that we will be able to scale.

In this context, shareholders may think that it is damaging shareholder value to issue conservative figures, but we were not able to actually achieved figures for the past three years, and for this year, we have made a slight haircut.

On the other hand, the results will be known after one year anyway, so there is a possibility that profits or sales may change slightly, but we believe that this is not a margin of error when we look at our growth over the next three years, and we would like to use this budget this time.

That is all.

Question & Answer

Moderator [M]: We are now moving onto the Q&A session. Mr. Shigematsu, Chief Executive Officer, and Mr. Tane, Director and Chief Financial Officer, will answer your questions.

If you have any questions, please let us know using the Zoom raise hand feature. I will call your name in turn. After being nominated, please unmute yourself and state your affiliation and name before you speak. We will limit the number of questions to two per person.

If you have any questions, please click the raise hand button.

Shigematsu [M]: That's all from me. Thank you for your participation.

Moderator [M]: Thank you very much for participating in today's Neural Group Inc.'s financial results presentation for the fiscal year ending December 2023. We will now end the presentation.

[END]

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