

Update the world for a better tomorrow



Financial Results Briefing Material

7th term, Q3 ended September 30, 2024

Neural Group Inc.
November 8, 2024

FY2024 (7th term) Q3 earnings highlights and business strategy updates

【Overview】

- Leveraging the maturation of our proprietary AI services in FY2023, we successfully built a structure for increased revenue and profitability in FY2024. In the third quarter of FY2024, following the strong performance of the second quarter, **sales grew steadily to 908 million yen** (a **+10.9% increase** compared to the same quarter of the previous FY).
- Achieved **operating profitability in a single quarter** for the first time in three years, and are steadily progressing towards **full-year profitability in FY2024**.
- In the AI market, digital signage market, and outdoor advertising market, our **AI x LED business has maintained steady growth**, contributing to **wider societal penetration** by continuing to provide solutions to both small and large customers.

【Growth Strategy】

- **Starting in the second half of FY2024, we are working to expand profits and continuously strengthen our technology and business model** (continuing the policy indicated in the second quarter results).
 - **Expanding profits and accelerating growth** through scaling our proprietary AI services.
 - Strengthening **recurring revenue models** and actively expanding **SaaS businesses such as KizunaNavi**.
 - Continuing research on **cutting-edge AI technologies** in image and audio fields and incorporating them into proprietary services. Continuing researches on **generative AI**.

【Profitability】

- We are successfully **optimizing costs and improving efficiency in providing proprietary AI services**, reducing R&D and operating expenses.
 - In the third quarter, **we achieved quarterly operating profitability** for the first time in three years, as expected. Also, with EBITDA in the third quarter cumulative term turning positive, we have **moved to a profit and cash flow generation phase** (from the investment recovery phase).
 - Compared to the same quarter of the previous FY, sales increased by **10.9%**, and sales and administrative expenses were reduced by **139 million yen**, resulting in a **significant improvement in profitability (annualized base of 556 million yen reduction)**.

- **Financial highlights and business model**
- Introduction to our services
- Overview of Neural Group

Financial highlights for the Q3 ended September 30, 2024

① Revenue Growth

Compared to Q3 of FY2023

+10.9% growth

Compared to cumulative Q1-Q3 of FY2023

+17.1% growth

② Cost Optimization (SG&A)

Compared to Q3 of FY2023

¥139 Mn reduction

Compared to cumulative Q1-Q3 of FY2023

¥283 Mn reduction

③ Building a profitable structure

Q3 quarterly operating profit: ¥23 Mn

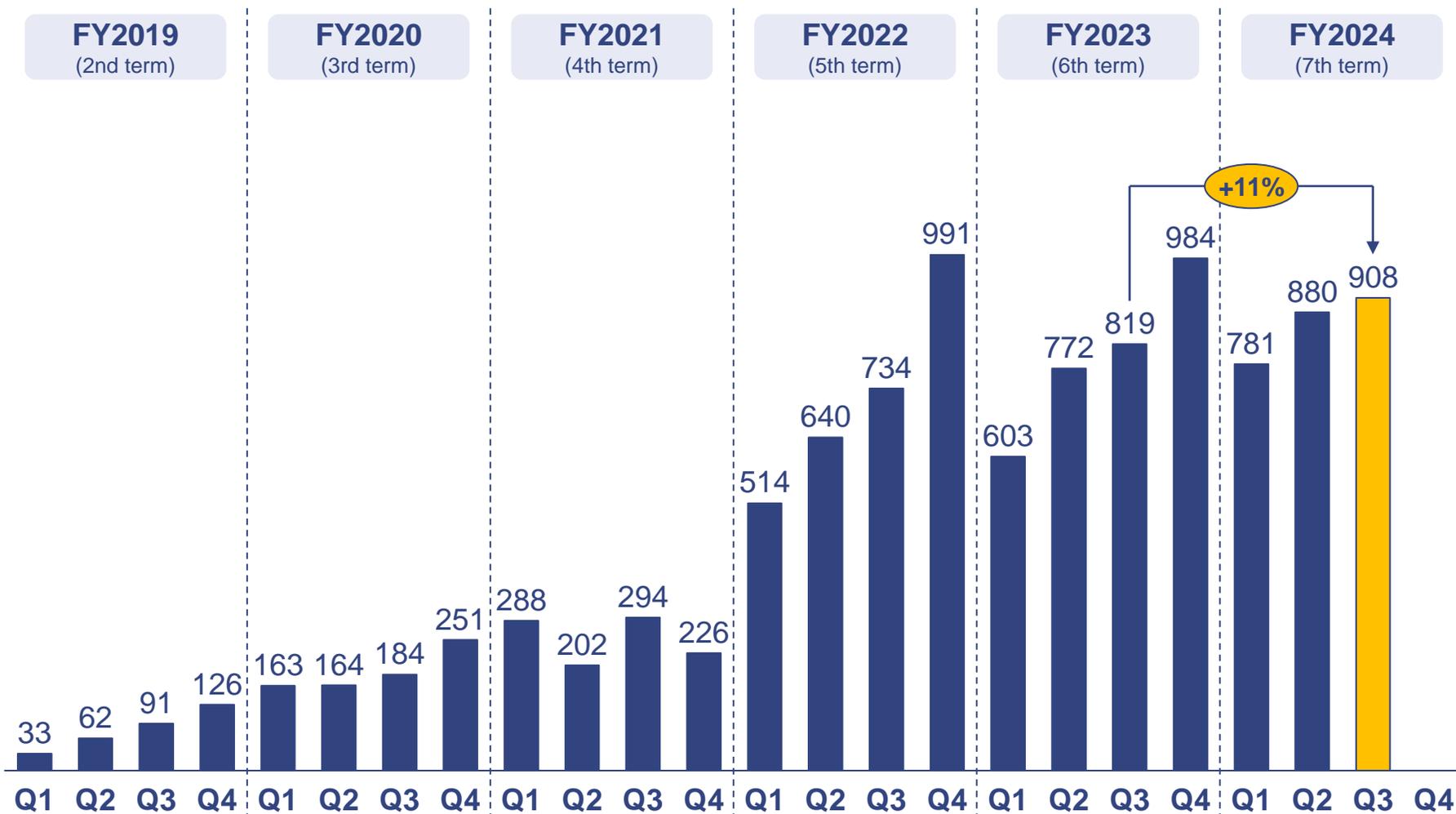
Operating profitability achieved

Cumulative Q1-Q3 EBITDA: ¥29 Mn

On track for generating operating cash flow

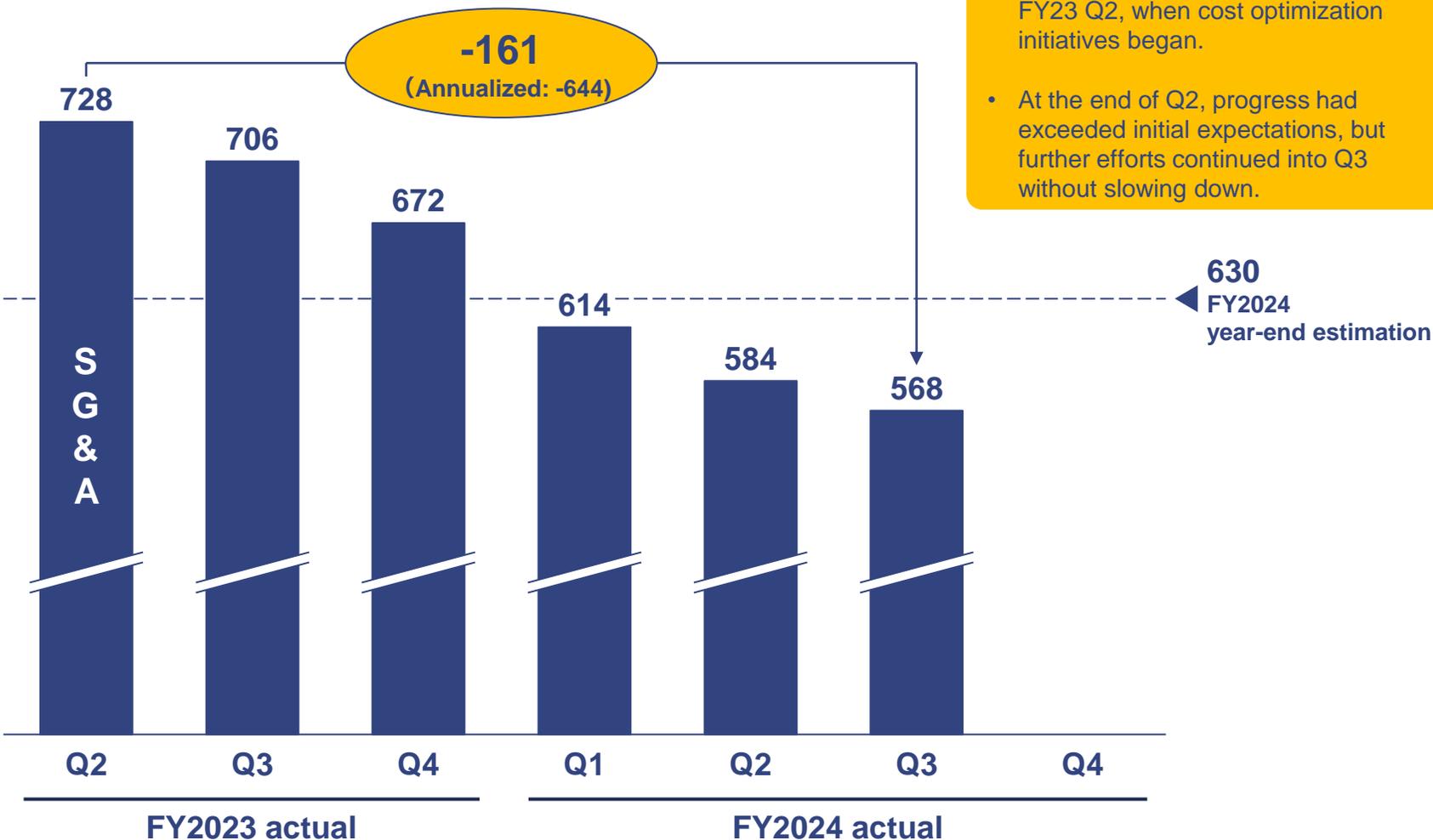
Quarterly revenue

(JPY Millions)



Quarterly SG&A cost

(JPY Millions)



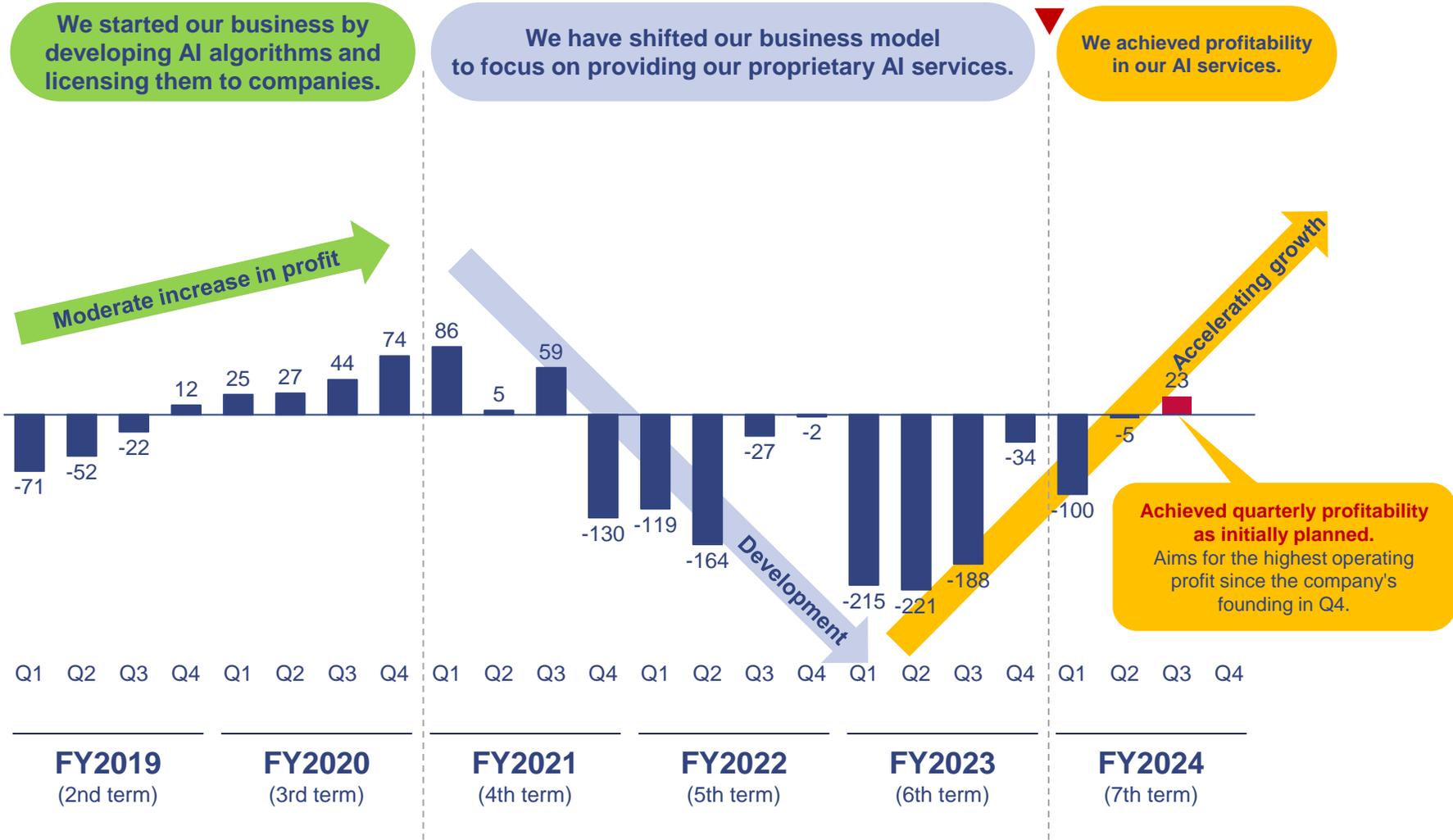
- While sales increased by **11% YoY**, quarterly SG&A costs were reduced by **¥161 million** (with an **annualized impact of ¥644 million**) compared to FY23 Q2, when cost optimization initiatives began.
- At the end of Q2, progress had exceeded initial expectations, but further efforts continued into Q3 without slowing down.

③ Building a profitable structure

Evolution of our business models and quarterly operating profit performance.

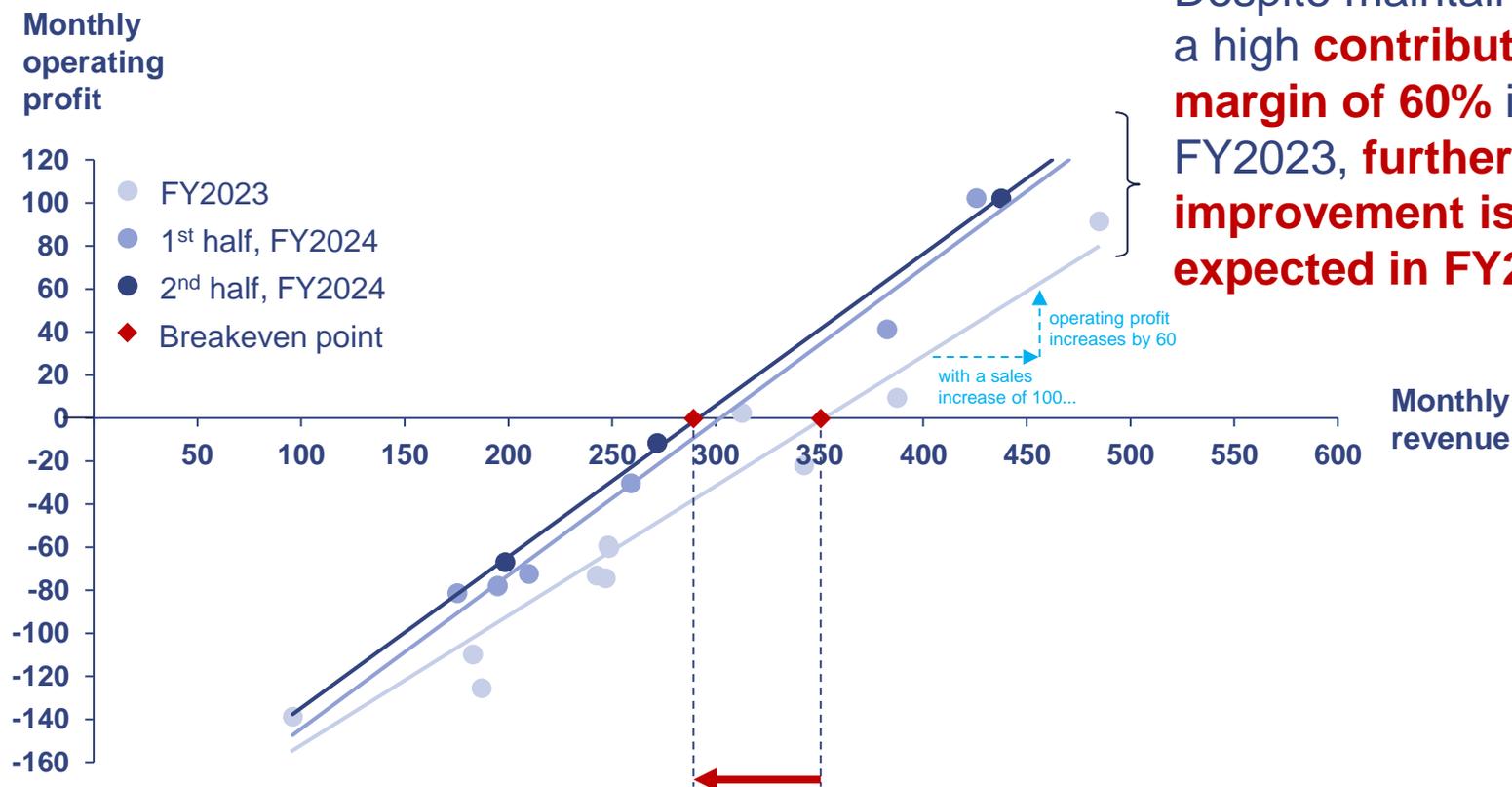
(JPY Millions)

After six years since its founding, successfully established a scalable AI service structure.



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

(JPY Millions)



Despite maintaining a high **contribution margin of 60%** in FY2023, **further improvement is expected in FY2024.**

With the establishment of AI services, sales and development activities have become more efficient. As a result, SG&A expenses decreased significantly, **greatly improving the breakeven point**. In Q3, the breakeven point improved even further compared to the first half.

Consolidated financial results for the Q3 ended September 30, 2024 – Achieved quarterly operating profitability

(JPY Millions)	FY2023 Q3 Actual	FY2024 Q3 Actual	Increase/ Decrease	Change in Percentage
Revenue	819	908	+89	+10.9%
Gross profit Percentage of revenue	518 63.3%	591 65.1%	+73	+14.1%
EBITDA Percentage of revenue	-143 -	60 6.7%	+203	-
Operating profit Percentage of revenue	-188 -	23 2.6%	+212	-
Net income Percentage of revenue	-237 -	-9 -	+228	-

Consolidated financial results for the cumulative Q1-Q3, 2024

– All metrics improved significantly year-on-year, with cumulative EBITDA also turning positive.

(JPY Millions)	FY2023 Q1-Q3 Actual	FY2024 Q1-Q3 Actual	Increase/ Decrease	Change in Percentage
Revenue	2,194	2,569	+375	+17.1%
Gross profit Percentage of revenue	1,425 <i>65.0%</i>	1,684 <i>65.6%</i>	+259	+18.2%
EBITDA Percentage of revenue	-494 -	29 <i>1.1%</i>	+523	-
Operating profit Percentage of revenue	-624 -	-82 -	+542	-
Net income Percentage of revenue	-602 -	-154 -	+448	-

Consolidated full-year financial estimate for FY2024

Progressing smoothly	FY2023	FY2024	Increase/	Change in
smoothly	Actual	Estimate	Decrease	Percentage
(JPY Millions)				
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	-

Progressing smoothly towards our business targets for the fiscal year ending December 31, 2024.

Quote from the “FY23 Financial Results Briefing Materials”



Our growth strategy

Revenue expansion

- **Expand and accelerate profits** by scaling proprietary AI services.
- Prioritize and focus on only the most attractive services.

Business model evolution

- Enhance the **recurring nature** of the revenue model.
- Actively strengthen **SaaS businesses** such as **KizunaNavi**.

AI technology exploration

- Implement **cutting-edge AI technologies** in image and audio domains into proprietary services.
- Continue research into **generative AI** technologies.

- Financial highlights and business model
- **Introduction to our services**
- Overview of Neural Group

Released a 1-on-1 support service to improve employee work comfort and accelerate their growth.

1-on-1 support services

KizunaNavi

KizunaNavi uses state-of-the-art AI analysis technology to improve the quality of 1-on-1 meetings.

By facilitating effective 1-on-1s, we support the significant enhancement of corporate and organizational well-being.

Examples of Customers



AI-generated advice on discussion topics.

member: To fill in the talk theme in advance

AI generates topics for discussion.

manager: With the help of AI advice, conduct 1-on-1s with creativity and ingenuity.

Improving managers' interviewing skills.

Analyze conversations with Edge AI.

Wordings Conversation Ratio attitude (Smiles, nods)

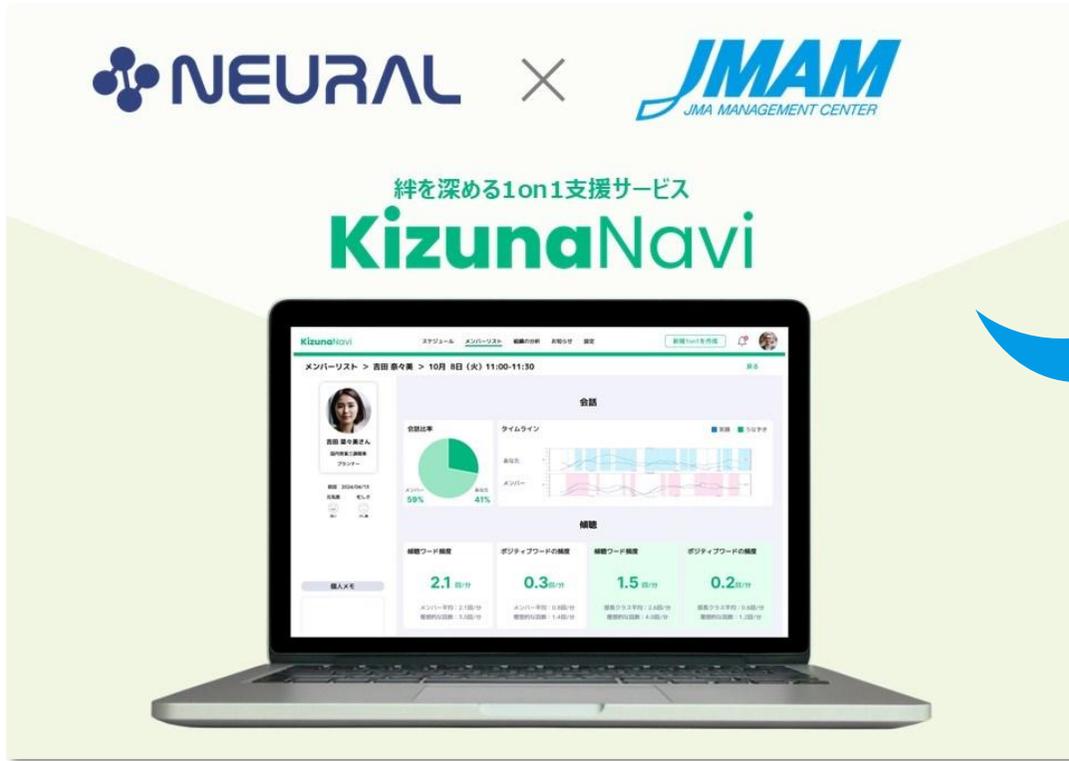
Visualizing members' degree of empathy.

Facilitating continuous improvement of 1-on-1 meetings.

- Access past 1-on-1 notes anytime.
- Review AI evaluation history to continuously improve the quality of 1-on-1 meetings.
- Strengthen organizational capabilities.

Started collaboration with “Japan Management Association Management Center” and promoting service expansion

👉 At the Japan Management Association Management Center (JMAM), a specialized human resource development organization, KizunaNavi was test introduced. Feedback for service improvement and expert insights were reflected in KizunaNavi, evolving it into a new 1-on-1 support service. From September 2024, agency sales through the Japan Management Association will begin.



➤ KizunaNavi dedicated website (©JMAM)



➤ Planned to hold the "KizunaNavi Service Launch Commemorative Seminar" (Hosted by JMAM)



Service update under the supervision of expert organizations



Accelerate service expansion through the start of agency sales

Employee dissatisfaction with the workplace.

Workplace Dissatisfaction Ranking — Survey of 500 Men and Women —

Dissatisfaction with the Workplace
(Unit: People)

Rank	Dissatisfaction	Number of People
1st	Poor human relationships and bad atmosphere	147
2nd	Low income	85
3rd	Dissatisfaction with working hours and days off	63

Challenges in improving **communication** and **work-life balance**.

Changes in employee work ethic.

young employees

1. Greater motivation for **personal growth**
2. Stronger sense of **independence**
3. Increased demand for **flexibility**

mid-level employees

1. Gradual increase in **mid-career hires**.
2. **Reskilling** is becoming more important.

1-on-1 communication is becoming increasingly important.

Biz Hitz Corporation [Rankings of workplace dissatisfaction] Survey of 500 men and women (May 2024)
Persol Research Institute [Employment and growth fixed-point survey of 10,000 workers] (August 2022)

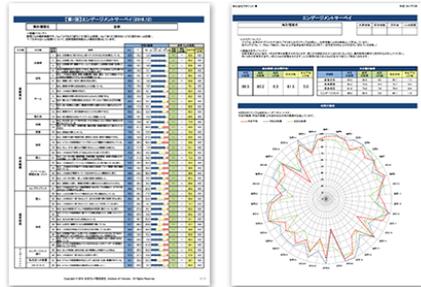
1-on-1 is a method to improve engagement on a daily basis.

Employee survey

Employee training

1on1/feedback

Engagement enhancement activities



Purpose

Understand employee engagement by organization and function, and identify areas for improvement.

Identify issues and organizations, and conduct group-based training on common topics.

In actual organizational and business settings, work to improve daily engagement through specific initiatives.



Compared to improving personal health...

Health check-up diagnosis



Learning knowledge about health



Daily health activities



To implement effective 1-on-1 meetings, some ingenuity is required



Typical 1-on-1

- **Managers** play the leading role.
- **Conveying** performance evaluations and work-related matters.
- Once or twice a year.

Main actor

Purpose

Frequency

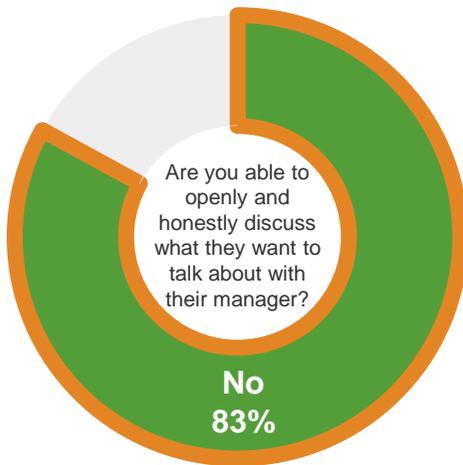


Ideal 1-on-1

- **Members** play the leading role.
Managers ideally spend 60–70% of the time listening, with advice kept concise and focused.
- **Advising** on balancing career development and personal matters.
- **Regularly**, such as once a month, on a continuous basis.

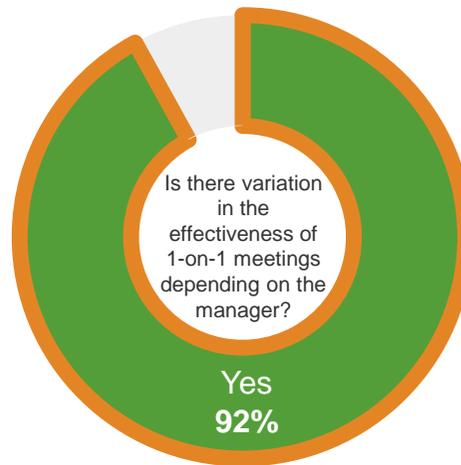
Three Challenges in achieving effective 1-on-1 meetings

Challenges for Members



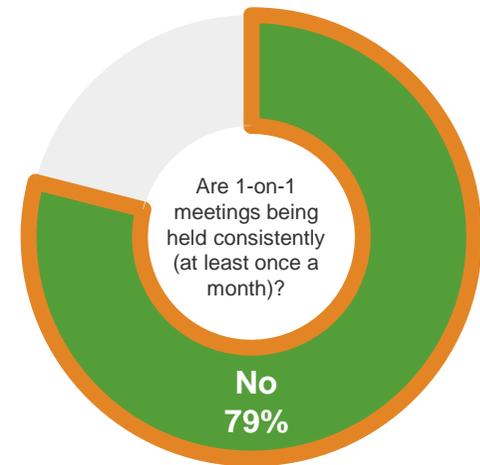
Advance preparation of topics to discuss is necessary.

Challenges for Managers



Enhancement of advising skills is necessary.

Challenges in Continuity



A mechanism for continuous implementation is necessary.

Success of 1-on-1 meetings depends on the manager's questioning and advising skills.

Question from member

I am aiming for a raise this year, and I would like to mentor subordinates next year. Could you tell me if there are any achievements I am currently lacking?

Suggested question/advice



- "To aim for a raise this year, let's start by setting specific goals. For example, let's think together about strategies to achieve sales targets."
- "If you want to be considered for a promotion next year, taking leadership training or management skill training would be a good idea. It will help strengthen both your achievements and skills."
- "Regarding your current lack of achievements, gaining experience as a project leader or in a similar role would be effective. Try taking the initiative to lead a small team and demonstrate your leadership."

Question from member

I want to launch a new business next year, lead it myself, and achieve results within two years. Please give me suggestions on this.

Suggested question/advice



- "What kind of business are you specifically thinking of launching? Please tell me about its background and purpose."
- "What resources and support do you feel are necessary when launching the business?"
- "As a leader, how do you plan to guide and manage your team? Please explain your approach and specific methods."

Question from member

Every Friday morning, I take my child to kindergarten and pick them up in the evening, so I want to work flexibly.

Suggested question/advice



- "In line with your Friday schedule, what kind of work adjustments do you think are necessary?"
- "To make Friday's work more flexible, are you making any adjustments on other days?"
- "What specific support do you need to balance your responsibilities? How do you think we can best accommodate your Friday schedule?"

In KizunaNavi, AI automatically generates questions and example advice.

- 01 Members organize their **discussion topics in advance**
- 02 Provide feedback to **managers**
- 03 Visualize the status and effectiveness of **continuous implementation**

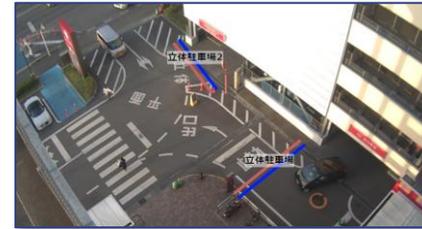
The logo for KizunaNavi features the word "KizunaNavi" in a bold, teal, sans-serif font. Above the letter "a" in "Kizuna" is a stylized orange arrow pointing downwards.

KizunaNavi incorporates all of these **three key elements** into its SaaS platform, providing companies with a **high-quality and continuous 1-on-1 support service**.

Providing services for smart city development using AI cameras.



For outdoor flat parking lots, a single camera can capture over 100 parking spaces.



Congestion analysis based on line counting at parking lot entrances and exits is also available.

1 Real-time availability management system for facility managers.

Parking space availability data is utilized to improve operational efficiency and enhance the customer experience.

2 Linking data to the facility website.

110	108
111	107
112	106
113	105
114	104
115	103
116	102
117	101
118	100

Customers can check parking availability in advance on their mobile devices.

3 Guiding drivers on-site to streamline traffic flow within parking lots.

Real-time on-site traffic control.

Top share in Japan with more than 12,000 LED signage installations

NeuralVision

- **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.



Expanding AI-driven web businesses with ChatGPT.

Generative Web powered by ChatGPT



Feature 1 Automatic Blog Generation

Feature 2 Multilingual Conversion

Function 3: Word-of-mouth auto-reply

Feature 4 SEO Automation

- Leveraging the extensive sales network of Neural Marketing Co. (a wholly owned subsidiary) and our AI development capabilities, we launched a new web page business.
- Started sales in May 2023, quickly commercializing generative AI beyond just research and development.

- Financial highlights and business model
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- **Overview of Neural Group**

Neural Group solves social issues in cities through Edge AI and enhances spatial value.



Edge AI & Smart City Solutions

Mobility, traffic control



Digi Park

Safety and efficiency using Edge AI



Edge Alert

Fashion trend analysis using image AI



Number plate and vehicle detection



Digi Thru

Work style reform and human capital utilization



AI advertising media for luxury apartments



FOCUS CHANNEL

Urban Foot Traffic



Digi Flow

Generative AI for retail marketing

NeuralVision

Generative AI utilization and web generation



Generative Web
powered by ChatGPT

**We build innovative AI services in-house
and provide them to our customers.**

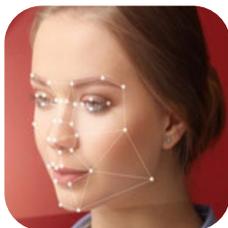
We develop proprietary AI libraries/ edge-related implementation technologies to enable AI smart cities

People attribute analysis

Gender/ age estimation



Facial recognition



Line-of-sight detection



Fashion analysis



People emotion and thought analysis

Facial expression, emotion analysis



Voice/ emotion analysis



Natural language processing

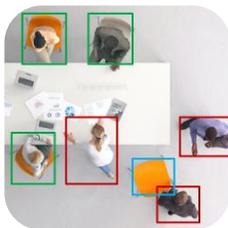


People movement and behavior analysis

Congestion analysis



Vacancy detection



Safe monitoring



Intrusion detection crime prevention



Vehicle analysis

Traffic analysis



Parking occupancy



License plate detection



Technologies related to social implementation of AI

Edge AI



Edge security



Ad delivery optimization



AI-enabled product recommendation



Data analytics



Digital signage integration



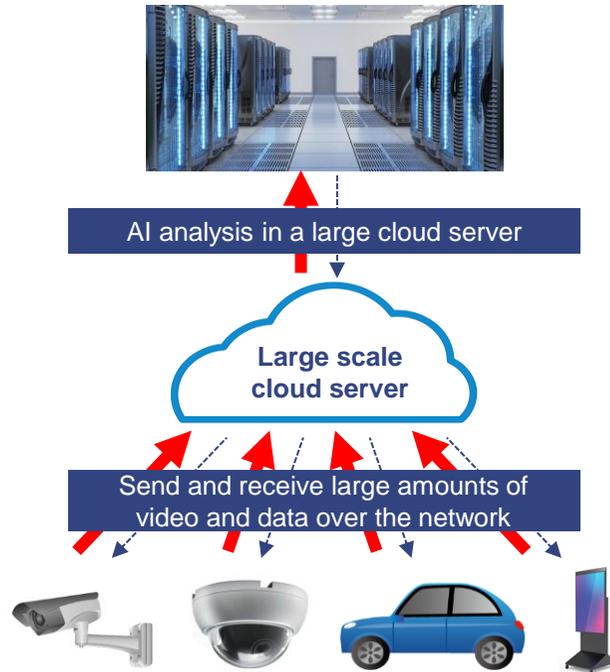
Mobile app integration



AI technology is evolving along with the industry's growth

Cloud AI

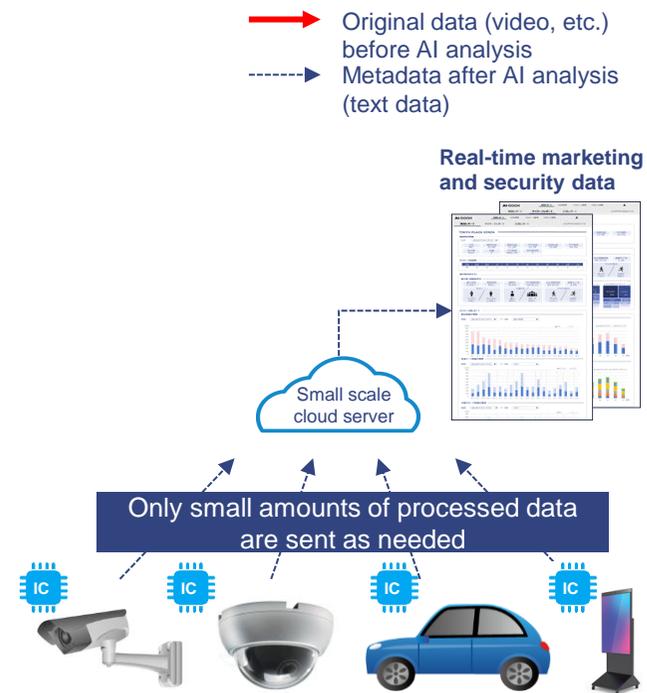
Conventional approach



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

Edge AI

Our approach



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

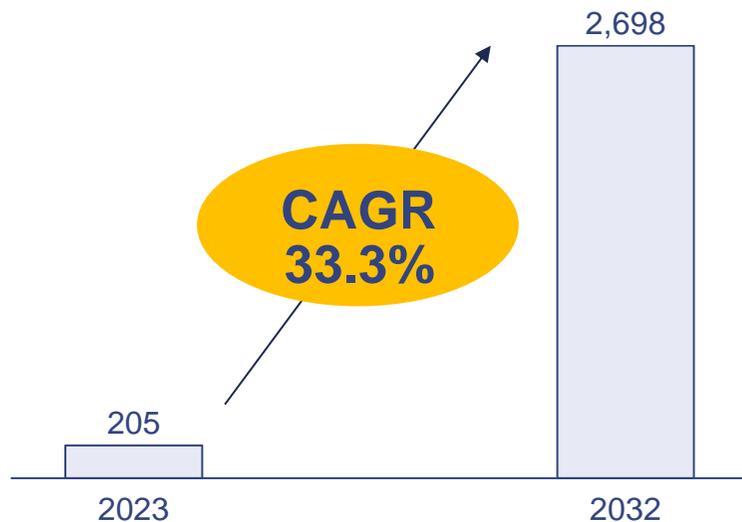
Also greatly contributes to privacy protection



Edge AI has a large global market size and offers high growth potential.

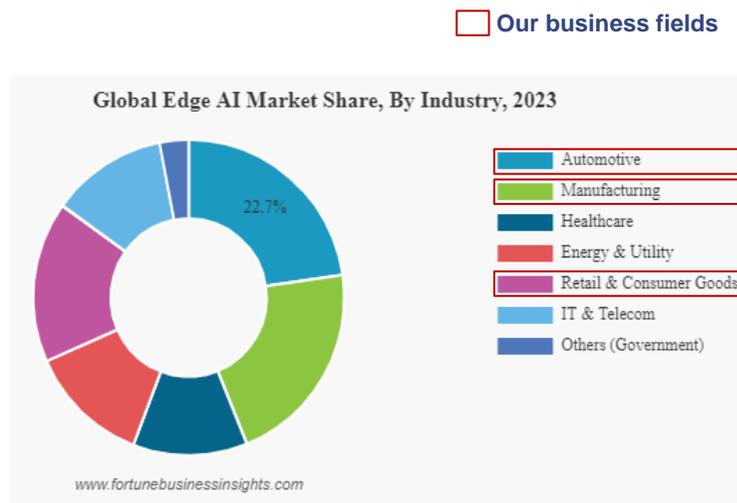
The Edge AI market is growing at an annual rate of 33.3%

Global: Edge AI Market, in USD billions



We operate in many of the key growth segments

Global: Breakdown of Edge AI Market by Industry (2023)



Source : <https://www.fortunebusinessinsights.com/edge-ai-market-107023> (Last Updated: July 29, 2024)

Our AI libraries operate on a variety of technical standards, contributing as an Edge AI Platform developer

As an NVIDIA Metropolis Partner, we actively adopt the NVIDIA Jetson series.



NVIDIA JETSON Xavier NX



python™ Rust

- Processor
- OS
- Language



NVIDIA JETSON Nano



python™ Rust



NVIDIA JETSON TX2



python™



intel arm



python™

- Processor
- OS
- Language



QUALCOMM™



Swift Java



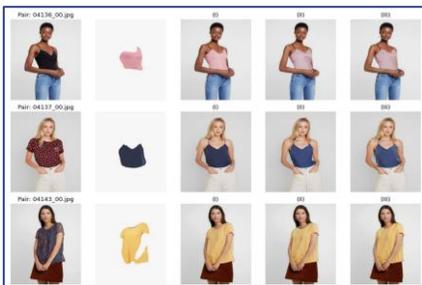
QUALCOMM™



python™

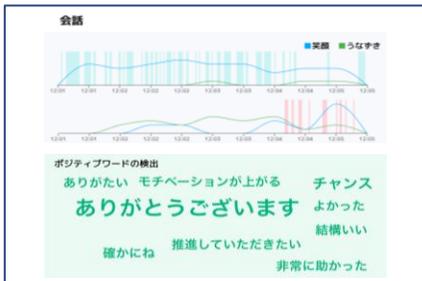
Continuing advanced AI research: By continually integrating new technologies into our services, we accelerate platformization and generalization, while also contributing to building barriers to market entry.

Image generation AI model



- Fully internalized image generation AI model.
- Enables creation of diverse content, supporting more creative advertising production.

Edge AI voice system



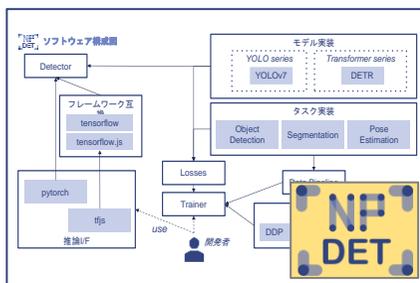
- Real-time analysis of user speech within edge devices.
- Natural language processing enables user feedback. Kizuna Navi development and release.

Multitask AI model



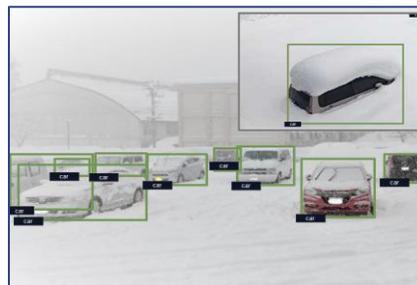
- Development of a multitask AI model integrating separate models.
- Reduced memory usage by ~50%, enabling faster AI recognition and miniaturization for edge devices.

Accelerating next-generation AI model development



- Building an AI model development platform.
- Able to implement cutting-edge academic methods with less than 1/10 of the conventional effort.
- Speeding up the cycle of additional learning and application to commercial services.

Uncompromising AI accuracy



- Conduct AI accuracy research and apply results to commercial services.
- Achieved stable detection accuracy and robustness even in abnormal environments, especially in data parks.

Neural Platform

- Real-time management of numerous online-connected edge AI devices.
- Enables automatic program updates and AI model updates remotely.

- Cutting-edge AI technologies, developed in academia, are rapidly implemented and integrated into commercial services through **remote updates**.
- By standardizing AI models and core technologies **across services**, services are generalized, contributing to **lower implementation costs and improved company profitability**.
- These initiatives contribute to **higher entry barriers and enhanced customer retention**.

Management team



Founder & CEO, Roi Shigematsu,

- Partner at McKinsey & Company.
- Led private equity investments at Bain Capital.
- Advisory Board of The Faculty of Engineering, The University of Tokyo (to present)
- Member of Keizai Doyukai (Japan Association of Corporate Executives) (to present)
- M.S. (Engineering), The University of Tokyo



Advisor, Yutaka Matsuo

- Professor, Artificial Engineering Research Center, Graduate School of Engineering, The University of Tokyo
- President, Japan Deep Learning Association; Expert Member, Council for the Realization of New Capitalism; Chair, AI Strategy Council
- Outside Director, SoftBank Group
- Advisor to the Company since 2018



Senior Executive Officer Tsubasa Iwakiri

- Led various consulting engagements at Accenture.
- CEO of Neural Engineering Co.
- Graduated from Doshisha University, Faculty of Life and Medical Sciences, Department of Medical Engineering.



Senior Executive Officer Masaaki Yamamoto

- Spent 15 years at Sony engaged in technology development and new business development.
- Earned a graduate degree from Tokyo Institute of Technology, specializing in Mechanical and Aerospace Systems.



Senior Executive Officer, CTO Takahiro Mikami

- Engaged in researches about image recognition (ResNet) and natural language (LSTM) models at Nomura Research Institute.
- Engaged in research on image recognition and natural language models at Nomura Research Institute.
- Ph.D. (Theoretical Physics), The University of Tokyo



Senior Executive Officer Taro Hitokoto

- Engaged in policy planning at the MLIT, covering areas such as parks and green spaces, urban planning, and sports facilities.
- M.S. (Agricultural and Life Science), The University of Tokyo

Partnered with many public and private organizations to promote AI services through an extensive network.

Industry groups

Keidanren

Japan Business Federation



Japan
Deep Learning
Association



The Osaka Chamber of Commerce and Industry



Japan Council of Shopping Centers



Michi-no-Eki



SENDAI BOSAI TECH



Public-Service Corporation
**JAPAN INSTITUTE OF LOGISTICS
SYSTEMS**



&LOGI Solution

Collaboration with corporations



Smart City related



MIC

Ministry of Internal Affairs
and Communications, JAPAN

Japan Platform for
Driving Digital Development: JPD3



Ministry of Land, Infrastructure,
Transport and Tourism

Smart City Public-Private
Partnership Platform



PLATEAU
by MLIT



TOKYO
METROPOLITAN
GOVERNMENT

TDPF
Tokyo Data Platform

Kamakura City Smart City Public
Private Sector Research
Association

MaaS Social Implementation
Promotion Forum



OSAKA SMARTCITY
PARTNERS FORUM

Appearances at seminars/ events

AI technology

- **Tokyo Data Platform Convention** Professional Advisor
- **RX Japan NexTech Week2022【Fall】** Lecture title “Smart Cities Today”
- **Macnica: Possibilities in Retail for Image Recognition AI** Speaker on Image Recognition AI
- **AI Innovation AWARD2022 “Future envisioned by Smart Cities”**
- **HONGO AI 2021** Judge
- **JR East Mobility Transformation Consortium**

Urban planning

- **Shibuya Ward Kitaya Park Jinnan Market** Thinking about the future of Shibuya Park! Speaker
- **Muroran City DX Promotion Forum** Panelist for “Connected Smart City” session
- **“Roadside Station Murayama” Development Basic Plan Study Citizens’ Meeting** Advisor
- **Regional Development College in Otaru** Plans for Otaru, a new northern commercial city, based on a Digital Rural City State Concept Speaker
- **National Ugoki Statistics Co-creation Idea Contest (Softbank)** Awarded Excellence Prize

Collaboration with Academia

- **DCON2023 Japan Technical College Deep Learning Contest** Final round, technical jury
- **Yokohama f College** Special lecture
- **Aoyama Gakuin University** Special lecture

Apparel

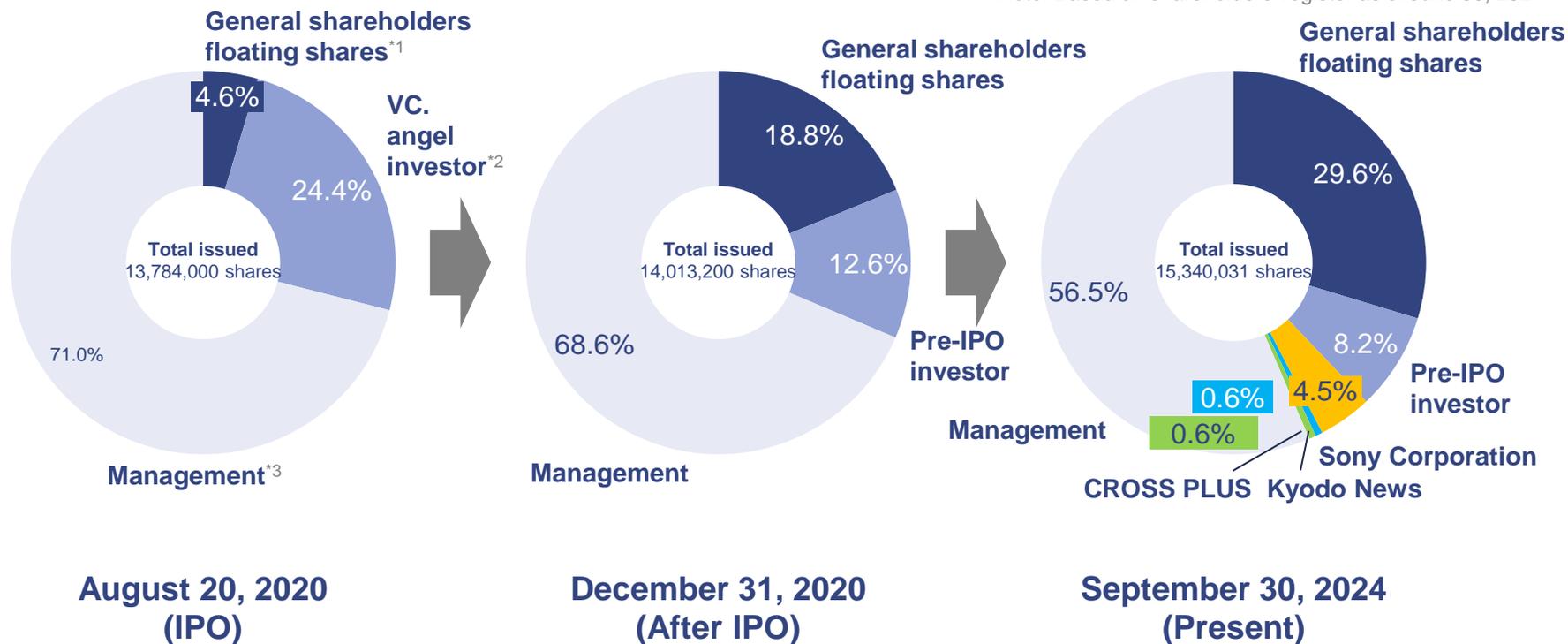
- **Ministry of Economy, Trade and Industry The 5th Study Group on Sustainability in Textile Industry** Presenter
- **Senken Shinbun “Fashion DX Day 2021”**

Others

- **ROCK THAILAND #4** Presented in Bangkok, Thailand
- **AWS Japan 「IoT AWS Seminar for Engineers」 etc.** “Creating services using IoT Core”
- **NTT Docomo Ventures Start-up Academy**
- **WIRED STARTUP LOUNGE** “The Art of Innovation -Mirror World”

Promoting capital and business alliances with operating companies while ensuring share liquidity by expanding floating shareholders

Note: Based on shareholders' register as of June 30, 2024



*1 Calculated based on the total number of 415,000 shares offered and 215,800 shares sold (including over-allotment) as well as the number of shares sold by shareholders, management and others since before the listing, which accounted for 13,784,000 shares of the total number of shares issued as of August 20, 2020.

*2 Shares held by shareholders (VC investors and angel investors) since before the company's listing, as recognized as a result of the company's own research.

*3 Number of shares held by the Company's management

Update the world for a better tomorrow



Neural Group, Inc.

We named our company "Neural Group" to express our desire to provide inspiring services that transcend boundaries across a wide range of fields through the development of cutting-edge technologies, including AI. We aim to leverage edge AI technologies in both real and virtual spaces to help create an exciting future society in various areas such as smart cities, urban development, work style innovation, and entertainment.

Disclaimer

Handling of the material

This document contains forward-looking statements. These statements are based solely on the information available at the time the statements were made. Furthermore, such statements are not guarantees of future results and are subject to risks and uncertainties. Actual results may differ materially from those projected in the future due to changes in the environment and other factors. Factors that may affect the actual results described above include, but are not limited to, domestic and international economic conditions and trends in relevant industries. We are under no obligation to update or revise any of the future information contained in these materials in the event that new information comes to light or future events occur. The information contained in these materials relating to matters other than the Neural Pocket is quoted from public information and Neural Pocket has not verified and does not guarantee the accuracy or appropriateness of such information.