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Financial Results for the Six Months Ended June 30, 2021 [Japanese GAAP]

Company name: Neural Pocket Inc.
 Stock exchange listing: Tokyo
 Code: 4056
 URL: <https://www.neuralpocket.com/en/index.html>
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 Schedule date of filing quarterly securities report: August 13, 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 six months ended June 30, 2021 (January 1, 2021 - June 30, 2021)

(1) Operating results

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

	Net sales		Operating profit		Ordinary profit		Quarterly net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
June 30, 2021	490	49.8	91	73.7	88	97.2	87	95.3
June 30, 2020	327	246.0	52	-	45	-	44	-
	Quarterly net profit per share		Diluted quarterly net profit per share					
Six months ended		Yen		Yen				
June 30, 2021		6.21		5.90				
June 30, 2020		3.36		-				

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	%
June 30, 2021	2,171	1,371	63.1
December 31, 2020	1,920	1,206	62.8

Reference: Equity capital As of June 30, 2021 1,370 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	-	0.00	0.00
FY 12/2021 (expected)	-	-	-	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	1,256	64.7	380	122.5	370	149.5	280	90.0	19.98

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)

June 30, 2021: 14,168,200 shares

December 31, 2020: 14,013,200 shares

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

June 30, 2021: 65 shares

December 31, 2020: 32 shares

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

Six months ended June 30, 2021: 14,108,167 shares

Six months ended June 30, 2020: 13,369,000 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.

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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 second 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 2Q FY2021 were ¥490,216 thousand (49.8% increase over the same period of the previous year) with operating profit of ¥91,005 thousand (73.7% increase over the same period of the previous year), ordinary profit of ¥88,806 thousand (97.2% increase over the same period of the previous year), and net profit of ¥87,661 thousand (95.3% 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 "2021Q2 Financial Results Briefing Materials" in our IR site updated on August 13, 2021.

Reference: [URL:https://www.neuralpocket.com/ir/library/](https://www.neuralpocket.com/ir/library/)

(2) Explanation of financial position

Assets

Current assets at the end of the second quarter of the current fiscal year were ¥1,803,177 thousand an increase of ¥129,788 thousand compared to the end of the previous fiscal year. This was mainly due to an increase of ¥57,455 thousand in cash and deposits and an increase of ¥70,618 thousand in merchandise. As a result, total assets amounted to ¥2,171,049 thousand, an increase of ¥250,053 thousand from the end of the previous fiscal year.

Liabilities

Current liabilities at the end of the second quarter of the current fiscal year were ¥690,338 thousand, an increase of ¥87,202 thousand compared to the end of the previous fiscal year. This was mainly due to an increase of ¥100,000 thousand in short-time borrowings. As a result, total liabilities amounted to ¥799,743 thousand, an increase of ¥85,207 thousand from the end of the previous fiscal year.

Net assets

Total net assets at the end of the second quarter of the current fiscal year were ¥1,371,305 thousand, an increase of ¥164,846 thousand compared to the end of the previous fiscal year. This was mainly due to an increase in retained earnings of 87,661 thousand yen.

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

No changes have been made to the financial results forecast for the fiscal year ending December 31, 2021 and the assumptions underlying the forecast. The forecast figures in this document are based on the information available at the time of preparation, and actual results may differ from the forecast figures 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 June 30, 2021
Assets		
Current assets		
Cash and deposits	1,424,812	1,482,267
Notes and account receivable-trade	192,310	190,864
Merchandise	37,763	108,381
Work in process	1,639	-
Others	16,862	21,663
Total current assets	1,673,388	1,803,177
Non-current assets		
Property, plant and equipment	71,014	133,905
Intangible assets	105,729	151,522
Investments and other assets	70,861	82,444
Total non-current assets	247,606	367,871
Total assets	1,920,995	2,171,049
Liabilities		
Current liabilities		
Accounts payable - trade	67,169	38,814
Short-term borrowings	450,000	550,000
Current portion of long-term borrowings	3,420	3,420
Income taxes payable	948	1,145
Others	81,597	96,959
Total non-current liabilities	603,136	690,338
Total liabilities		
Long-term borrowings	111,400	109,405
Total non-current liabilities	111,400	109,405
Total liabilities	714,536	799,743
Net assets		
Shareholders' equity		
Share Capital	18,547	56,810
Capital surplus	1,362,723	1,400,987
Retained earnings	(174,656)	(86,995)
Treasury shares	(156)	(380)
Total shareholders' equity	1,206,458	1,370,421
Stock acquisition rights	-	883
Total net assets	1,206,458	1,371,305
Total of liabilities and net assets	1,920,995	2,171,049

(2) Quarterly statement of income

(Thousands of yen)

	For the six months ended June 30, 2020	For the six months ended June 30, 2021
Net sales	327,149	490,216
Cost of sales	22,535	84,040
Gross profit	304,614	406,176
Selling, general and administrative expenses	252,214	315,171
Operating profit	52,399	91,005
Non-operating income		
Interest income	3	7
Foreign exchange gains	-	0
Subsidy income	97	-
Others	2	10
Total non-operating income	103	17
Non-operating expenses		
Interest expenses	2,354	2,216
Foreign exchange losses	39	-
Going public expenses	5,072	-
Total non-operating expenses	7,466	2,216
Ordinary profit	45,037	88,806
Profit before income taxes	45,037	88,806
Income taxes - current	145	1,145
Total of income taxes	145	1,145
Quarterly net profit	44,892	87,661

(3) Quarterly statement of cash flows

(Thousands of yen)

	Six months ended June 30, 2020	Six months ended June 30, 2021
Cash flows from operating activities		
Profit before income taxes	45,037	88,806
Depreciation	10,588	33,759
Interest income	(3)	(7)
Interest expenses	2,354	2,216
Going public expenses	5,072	-
Share-based remuneration expenses	-	883
Decrease (increase) in trade receivables	(38,555)	1,446
Decrease (increase) in inventories	-	(68,979)
Decrease (increase) in prepaid expenses	(3,045)	742
Increase (decrease) in trade payables	-	(28,355)
Increase (decrease) in accounts payable – other	(2,880)	11,490
Increase (decrease) in accrued expenses	(10,417)	(4,960)
Increase (decrease) in deposits received	300	(787)
Increase (decrease) in advances received	-	57
Other-net	15,173	(30,440)
Subtotal	23,624	5,872
Interest received	3	7
Interest paid	(3,886)	(3,495)
Income taxes paid	(290)	(948)
Net cash provided by (used in) operating activities	19,451	1,435
Cash flows from investing activities		
Purchase of property, plant and equipment	(398)	(35,977)
Purchase of intangible assets	(49,847)	(70,234)
Payments of leasehold and guarantee deposits	(380)	(12,075)
Net cash provided by (used in) investing activities	(50,625)	(118,287)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	190,000	100,000
Repayments of long-term borrowings	(1,995)	(1,995)
Payment for going public expenses	(3,532)	-
Proceeds from issuance of shares	-	76,527
Purchase of treasury shares	-	(224)
Net cash provided by (used in) financing activities	184,473	174,307
Net increase (decrease) in cash and cash equivalents	153,299	57,455
Cash and cash equivalents at the beginning of period	825,778	1,424,812
Cash and cash equivalents at the end of period	979,078	1,482,267

(4) Notes to the quarterly financial statements

(Note on going concern assumptions)

Not applicable

(Notes on material changes in shareholders' equity amount)

For the six months period ended June 30, 2021 (from January 1, 2021 to June 30, 2021)

1. Dividend payment amount

Not applicable

2. Of dividends related to the six 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, share capital and capital reserve increased by ¥38,263 thousand each.

As a result, share capital and capital surplus amounted to ¥56,810 thousand and ¥1,400,987 thousand, respectively, at the end of the second quarter of the current fiscal year.

(Significant subsequent events)

Not applicable