



**Neural Pocket Inc.**

Q3 Financial Results Briefing for the Fiscal Year Ending December 2020

November 16, 2020

## Event Summary

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|                             |   |                         |
|-----------------------------|---|-------------------------|
| <b>[Company Name]</b>       | Neural Pocket Inc.  |                         |
| <b>[Company ID]</b>         | 4056-QCODE  |                         |
| <b>[Event Language]</b>     | JPN   |                         |
| <b>[Event Type]</b>         | Earnings Announcement   |                         |
| <b>[Event Name]</b>         | Q3 Financial Results Briefing for the Fiscal Year Ending December 2020          |                         |
| <b>[Fiscal Period]</b>      | FY2020 Q3   |                         |
| <b>[Date]</b>               | November 16, 2020   |                         |
| <b>[Number of Pages]</b>    | 36  |                         |
| <b>[Time]</b>               | 13:00 – 14:21<br>(Total: 81 minutes, Presentation: 51 minutes, Q&A: 30 minutes) |                         |
| <b>[Venue]</b>              | Webcast   |                         |
| <b>[Venue Size]</b>         |   |                         |
| <b>[Participants]</b>       | 100   |                         |
| <b>[Number of Speakers]</b> | 2   |                         |
|                             | Roi Shigematsu  | Chief Executive Officer |
|                             | Tomohiro Somehara   | Chief Financial Officer |

## Presentation

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**Toyoda:** It is time, so we will begin.

Ladies and gentlemen, thank you for participating in the financial results briefing for the third quarter of the fiscal year ending December 2020 of Neural Pocket Inc. My name is Toyoda. I will be your moderator today.

We will conduct the presentation using the financial results briefing material posted on our IR website on November 13. We will share the screen on Zoom, but please download the material from our IR website if you need it. Recording the video or voice of this briefing is prohibited.

Thank you for waiting. Now, Mr. Shigematsu, CEO, will give a business overview and results presentation.

**Shigematsu:** Ladies and gentlemen, thank you for your time today. I'm Shigematsu, CEO.

August 20 marks the third year of the Company's founding. After being listed, I have received a lot of feedback and suggestions through meetings.

This is our first results briefing, so I hope to answer those feedback and questions as much as possible. We prepared the material to make sure of the information transparency of disclosures. In addition, we received many questions regarding our growth potential. Therefore, we planned this briefing with the intention to explain those points and our outlook as much as possible.

Let's begin.

I would like to give the presentation in three sections.

The first section is a response to questions that we received most frequently in our meetings, and it is about what the value proposition of the Company is. It is about what kind of social issues Neural Pocket works to solve through its value proposition, and this is a topic I would like to spend some time explaining in detail.

The second section is about the performance highlights that we disclosed. The numbers are straightforward, so I think you can see that on your own. My explanation will focus on the intention behind those numbers, as well as our intention regarding future growth.

The third section is about our business growth policy. This will mainly be qualitative information. It includes how we plan to realize discontinuous and outstanding growth. I will also explain the business model and the KPI policy.

## We enjoy extraordinarily convenient online experiences



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I will first go over the social issues we tackle and our business content. This goes without saying, but it has already been around 40 years since the creation of the Internet and TCP/IP. Today, it has become normal to use personal computers and smartphones to connect to the Internet and use services.

For example, this includes online search. In other words, all kinds of information can be retrieved in less than one second by search on your PC or smartphone.

Then, how about shopping? This is shown on the right side. For example, it has become very simple to search for a product you want and know the inventory status. Due to the COVID-19 pandemic, this shift to ecommerce has accelerated even more.

Meanwhile, in terms of consumption of new content, this is a new experience, such as entertainment that used to be done in the real world, which has mainly shifted to the consumption of content.

For example, there has recently been progress in delivery services, the sharing economy, and online media. As a result, we are able to experience a wide range of things on the Internet.

The last frontier of this online shift was considered the change in work style. However, the coronavirus has forced many companies to adopt remote work. Looking back, this shift to new ways of work was realized at an extremely fast pace. This shows that this Internet-centered lifestyle is taking definitive shape in society.

As value of real world experiences are being revaluated, there are still unmet needs in physical spaces



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On the flip side, will the emphasis on this Internet-centered lifestyle then diminish the real-life experiences? This is a topic with split opinions among experts. However, what I hear often is that once this Internet-centered lifestyle is enriched, people will reassess the value of real-life experience.

This means that real-life entertainment and meetings where you go in person, and actually see and talk with other people, are being reassessed of their value even more than before. However, when thinking about what kind of experiences we have in this real world, we realize that it is surprisingly awash in analog technologies.

For example, in real-life space, we might go out to look for entertainment, or we might go to a tourist spot and think about what to do today. Or, we might be in the city and wonder what to do when we have some extra time. Inside commercial facilities, when thinking about what kind of products to buy, there are indeed cases where we search on the spot, on smartphones. However, in many cases, what people rely on in those places is real-life media such as flyers, POP advertisements, and information on posters. There is still a large portion of people who rely on this information.

On the other hand, we have seen the adoption of ecommerce. Still, around 70% to 80% of consumption is done at stores, where people physically go to buy goods. When doing so, the actual searching for products is done visually. Consumers enter the store, look around at the product shelves, and will pick up a product if they find something they like. This is the normal course of events in the analog or real-life society.

How about for experience, tourism, and content consumption? For instance, driving cars or using trains and other such mobility is one of the largest industries in Japan. Research progress is being made centered on autonomous driving in terms of digitalizing mobility. There are still mounting problems in mobility, such as

road traffic, parking lot congestion, danger or congestion associated with trains, and these problems are unchanged.

The same goes for work style. There are many companies that now have 70% to 80% implementation ratio of remote work. However, the 30% or so of employees who commute to the office are doing tasks that are highly valuable. Yet, it is difficult to grasp the productivity of work done at home, as well as the safety or proper information handling of working from home.

As nuclear families and single-person households increase, the guarantee of safety inside cities is an issue in real-life society, and many companies are taking initiatives to solve this.

Against this backdrop, Neural Pocket has carried out activities with a strong focus on such issues. As you know, we are a company developing artificial intelligence and deep learning technologies. The question, then, is how we employ this technology inside cities, especially within real-life spaces.

Put simply, Neural Pocket tackles the social issues that I have just explained through the digitization of information inside cities that are still in the condition of not being digitized.

**Our value proposition**



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This is what is meant by the phrase written here: “Neural Pocket provides digital services for physical spaces to enhance our real-world experiences through introducing intelligent AI cameras.” These are my own words.

There are people who say that the digitalization of physical spaces can be done with sensors. However, sensors must be turned on and off. It can capture information of “one and zero” such as whether people were there or if a car was there. However, a lot of background information is missing.

I believe that AI cameras are indispensable in solving this major pain point.

Let's take a moment to think about how people are searching for information in an analog way inside cities. In reality, as I said before, 90% of information is visual information. In the same vein, this AI camera is an indispensable technology in terms of digitizing this 90% of visual information without losing its freshness.

To summarize all of that and capture what this company does, it is the "AI Smart City Revolution." I think this can be considered a summary of our business.

**Our value proposition**



**A new major market is being created in the field of smart cities**

**Global Smart City market size is approx. 100-200 trillion yen**

**Asia is the source of growth for smart cities**

| Research Company / Report Name  | Global Market Size <sup>*1</sup> |
|---|----------------------------------|
| <b>Allied Market Research</b><br>Smart Cities Market by Functional Area : Global Opportunity Analysis and Industry Forecast, 2018 – 2025                      | In 2025<br><b>2.4T USD</b>       |
| <b>Mordor Intelligence</b><br>Smart Cities Market - Growth, Trends, and Forecast (2020 - 2025)  | In 2025<br><b>1.7T USD</b>       |
| <b>IMARC</b><br>Smart Cities Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast 2020-2025  | In 2025<br><b>1.0T USD</b>       |
| <b>Markets And Markets</b><br>Smart Cities Market by Smart Transportation, Smart Buildings, Smart Utilities, Smart Citizen Services - Global Forecast to 2023 | In 2023<br><b>0.7T USD</b>       |

Smart City Market Growth Rate by Region (2019-2024)



Although I just mentioned the smart city revolution, every day, we think whether this business is truly attractive, just like many of you here today, including investors and analysts.

First, in terms of the numbers, we consider the market size of smart city to encompass enormous needs. In reality, estimating the market size of smart city is very difficult, but many research companies have made their assessments. Depending on the company, the estimates range from over JPY70 trillion to JPY250 trillion. Each analyst forecasts this as the recurring market size annually.

In this way, even the experts are split in opinion regarding how much this smart city will make progress. However, as a consensus, everyone believes that there is a high need for the digitalization of analog spaces in the world.

We are an Asian company, a Japanese company, tackling this issue, but what we hear from investors often is the question of why it has to be an Asian company rather than GAFA. I receive a large number of questions regarding whether an emerging company like us can truly compete with these players on the global stage.

Of course, there has been progress in the technology of US and European players, so my intention is not to say we are going to win in all of the markets. However, I think there is a major geographical advantage in the fact that our business is based in Asia.

As shown on the right side of the slide, this concept of a smart city is strongly considered as a source of growth in Asian countries.

Why is this? As for why Asian countries can be the driving force of global smart cities, ahead of the US or Europe—there are several reasons.

First, this can be said even when just taking the productivity of factories in Asian countries. There are many countries with developing economies compared to the US and Europe where most countries are advanced. When creating new cities in such developing nations, it is possible to create cities that leapfrog the digitalization of advanced countries.

Put differently, it's extremely difficult in advanced countries to suddenly create a new city that's the size of several hundred Tokyo Dome. However, that's not rare in the urban development of emerging countries. Rather, these types of cities are sprouting up in vast numbers.

As you all know, the US and China are major players in artificial intelligence. Neural Pocket is striving hard to vie in this field as a Japanese player. However, in reality, there is a strong aspect in which Chinese players, along with Japanese players, are shouldering this cutting-edge AI technology in Asian countries.

I especially receive a lot of questions, given that we are a Japanese company, regarding what kind of position Japan occupies in relation to the US or China. I believe Japan's position is extremely well-balanced.

This is because, if you look at Chinese companies, they are busy with development work inside China. They are serving an incredibly large market—the largest market in the world—so they are busy. The same can be said of the US players. They are very busy with the domestic market. Recently, in the US, people are highly sensitive about the handling of personal information by AI. This sort of activity will become an obstacle for the US to develop smart cities.

Compared to that, Japan is extremely well-balanced. Regulatory frameworks have been developed and METI issued a guidebook on the usage of cameras two years ago. There is a certain level of deepened understanding regarding the use of such AI camera technology in cities. Meanwhile, Japan is also very well-balanced in terms of compliance regarding the protection of personal information.

In terms of our positioning, the AI technology we cultivate in Japan will be easier to expand in the newly emerging cities, mainly across Asian countries.

## Neural Pocket has developed services that enable smart cities



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As shown on the next page, there has been much discussion over and over again for the last several decades regarding what is a smart city.

For example, it is a smart grid. Some people say optimizing power distribution is a smart city. Others say placing sensors in cities is a smart city. Thus, there are many varieties of opinions.

Regarding the definition of a smart city, I would like to leave that in the hands of experts. These are the services we are considering in the context of an AI smart city revolution I mentioned earlier, which entails the digitalization of physical spaces.

After approximately two years and ten months since we were founded, we now have six services. I hope you will understand that these technologies are closely interlinked with each other. I will give a brief overview of each of these six services from the next page.

# People flow and crime prevention services are essential for smart cities

**Face recognition for security and lost child detection**

**Measurement of people flow in outdoor public spaces**

| Hour | Average number of pedestrians per hour |
|------|--|
| 0    | 0                                      |
| 1    | 0                                      |
| 2    | 0                                      |
| 3    | 0                                      |
| 4    | 0                                      |
| 5    | 0                                      |
| 6    | 0                                      |
| 7    | 0                                      |
| 8    | 0                                      |
| 9    | 0                                      |
| 10   | 0                                      |
| 11   | 0                                      |
| 12   | 0                                      |
| 13   | 0                                      |
| 14   | 0                                      |
| 15   | 0                                      |
| 16   | 0                                      |
| 17   | 0                                      |
| 18   | 0                                      |
| 19   | 0                                      |
| 20   | 0                                      |
| 21   | 0                                      |
| 22   | 0                                      |
| 23   | 0                                      |

**Identification of people flow with temperature detection**

**Monocular camera for people flow and depth detection (patented)**

**Human flow and density detection in large facilities**

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First is people flow, crime prevention service. We believe this is a very basic service technology, which is front and center for companies advancing digitalization inside cities using deep learning.

As you know, Chinese companies like SenseTime and Megvii are very strong in these areas, and they are China’s leading unicorn companies. I believe this technology of placing sensors in cities and detecting people is the most necessary technology.

At Neural Pocket, as you can see on the upper left, we already have facial recognition technology that is being deployed industrially inside cities. Our technology has a very high precision of detecting human faces, and it is used in crime prevention inside cities. It also has a registered blacklist that detects criminals, as well as a detection function of missing children. It has successively been rolled out starting this year.

At the same time, in the middle of the slide, it says, “Measurement of people flow in outdoor public spaces.” This is a camera view from a long-distance frame, which we call the birds’ eye image. This is a birds’ eye view of the city, so it enables the capture of a wide field of view from a long distance. Therefore, it has a precise axis of motion, which essentially is what enables the accurate identification of people and location. Just a single camera can analyze thousands of people.

This is our patented technology. By utilizing this technology—let’s take the example of analyzing people in the city. For example, in a scramble intersection, you would have to install several dozens of cameras, and it would require an enormous amount of tuning.

However, by using our technology, just a single camera can capture the movements of thousands of people on a micro-scale from a birds' eye image. I will omit an explanation of the rest. However, we are making real progress on such basic technologies of human detection.

**Services: Parking and Mobility**



**Parking and mobility services are universal across countries**

**Real-time occupancy detection using AI cameras**

Commercial parking SMARK Iseasaki operated by Tokyo Tatemono (left: daytime, right: nighttime)

**Parking management system screen**

Proprietary parking management system software

**Automatic generation of license plate learning data through computer graphics**

Logistics facilities managed by Prologis

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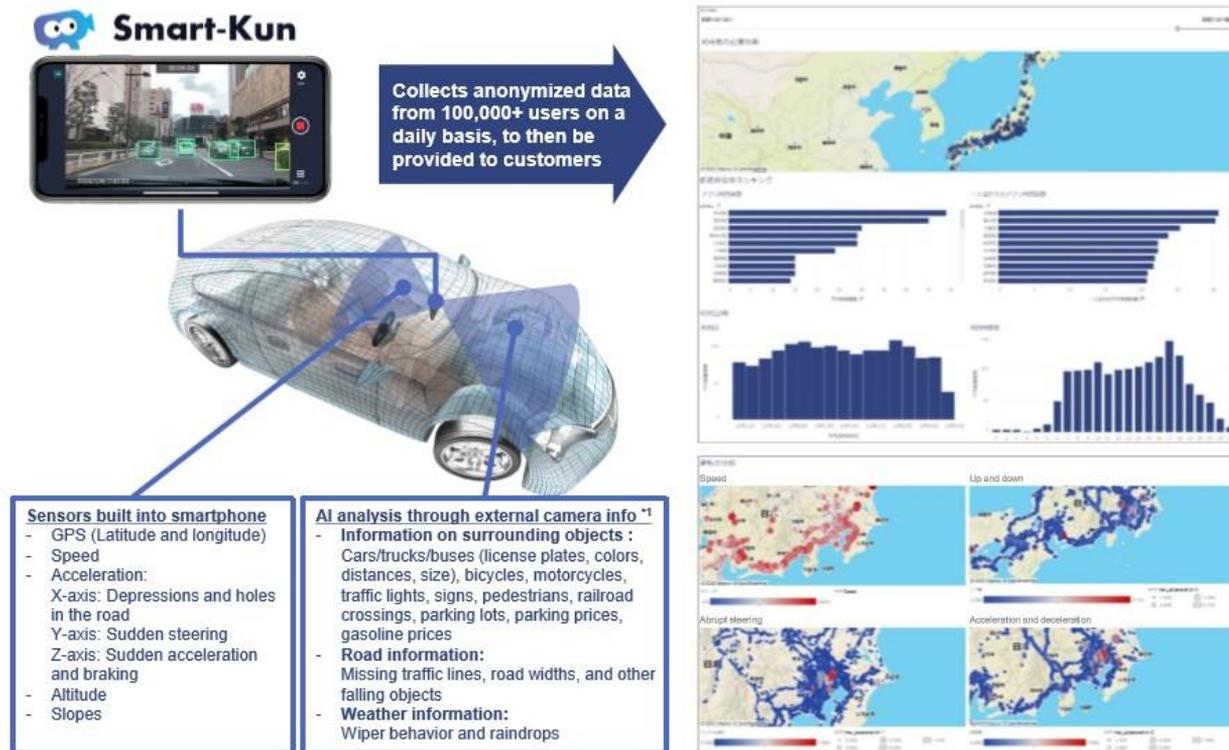
Our second service is shown here. This is the application of people detection technology to cars. This is a technology, just like the other one, where we use a birds' eye image from a zoomed-out viewpoint to accurately analyze the occupancy information of each vehicle.

We've already issued a press release regarding adoption by several companies. Our technology is being used to detect the occupancy or vacancy of each vehicle from a zoomed-out viewpoint in less than one second. Therefore, it enables the analysis of all angles of view instantaneously. The speed and accuracy in which this technology does this is incredibly faster than a human being checking one car at a time.

By using this technology, we can solve many issues inside cities, such as the hassle of looking for vacant parking spaces or reducing congestion in front of the entrance of large-scale parking lots. Alternatively, there may also be cases where drivers circulate the city, not knowing the vacancy status of parking lots, thereby resulting in additional city congestion.

Also, as a side note, we also do number plate detection. By detecting the number plate, it becomes possible to easily reserve and pay for parking lots, enabling cashless payments. We have already been implementing such services from around the beginning of this year. We consider this a crucial service, and it is one of the services in which we place the foremost effort.

## 3D city mapping services accelerates mobility services



The third service is an application of such automotive services to mapping—in other words, the digitalization of urban information.

At the end of last year, we started offering Smart-Kun, a free drive recorder iPhone app. Currently, it has been downloaded around 100,000 times. We didn't run any notable advertisements, but it spread by word of mouth, and now many people are using it.

When meeting investors, I am often asked what the business model is. They ask me why we are providing this service. This isn't a scheme of short-term monetization. This is the digitalization of national information.

For example, if you have a fixed-location camera, you can only capture the information within that angle of view. However, if you embed AI into a drive recorder, which is a camera on moving vehicles, then what happens is that you can capture the city information from a moving object.

This includes information inside cities captured in the drive recorder, such as car information, road information, and line information. It includes white line information, displays, signs, and more. On top of that, in recent smartphones, there are gyro sensors that are embedded, meaning that we are able to capture the acceleration information from the three axes of X, Y, and Z in addition to GPS. Then, it can capture the vertical information of roads, such as dents and bumps. In terms of horizontal information, it can capture sharp turns and curves. In terms of forward/backward information, it captures sudden acceleration or brakes.

Then, we use that driver's driving information and the information of maps from where these drivers went to plot it onto a map. These maps can then be used for urban planning and autonomous driving—this is the nitty-gritty of this technology. I believe this is a highly crucial service in terms of such digitalization.

## Our AI signage connects real advertisements to the Internet



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Next is a slightly different service. This is the digital signage advertisements, which we have been doing as our mainstay business. This business has also been progressing very steadily.

As for the enclosure of the hardware, it is like the one you see in this photo. It's digital signage that looks very similar in format to an elongated and enlarged version of the iPhone. As shown on the photo on the right, there is a camera attached on the top that's small enough for most people not to recognize it. There's a large-sized LCD, and behind it is an edge AI box, as shown on this slide. This edge AI box is basically a mini-computer that is embedded in each digital signage.

The information of people captured in the vision of an AI camera is analyzed on the spot within one second by processing it with AI inside the edge box. The mechanism is one where information of people processed by AI uses the communication signals incorporated into the edge boxes to deliver the information to servers.

There are several benefits to this service. First, as shown on the upper left, it can be used to display building information and play advertisements. As I stated in the beginning, one of the social issues is how to encounter the products we want. This information is digitized by this signage.

For example, we have recently started activities to display the latest store information linked with inventory status, as well as the featured products inside the stores, on this signage. Therefore, this is an example of playing an advertisement on signages in real-time of products that are available in stores. It brings the feeling of buying something on ecommerce into a real-store experience.

Second, signage can also analyze consumer movements and attributes. In fact, people who visit physical stores are declining, such as at apparel stores. Unless these stores seek ways of efficiently optimizing the enjoyable

shopping experience of people who physically visit the store, then the existing value of physical stores continues to diminish.

Thus, the second benefit is the digitization and analysis of consumer behavior to create stores that are easier to find and more enjoyable.

The third benefit, as shown here, is the measurement of advertisement views. This is a combination of the two I just mentioned. We have various kinds of proprietary content that is distributed through our content distribution system, as shown on the lower left. Thus, we are able to change the content distributed, depending on each store or facility.

Then, we analyze whether the actual consumers who visit the store were interested in the advertisement—an equivalent of the number of clicks in online advertising. In advertising jargon, there are terms such as the number of circulation or impressions. We have realized the visualization of views that had been done online in real-life stores as well.

As for the number circulation, it would be equivalent to how many people passed in front of the digital signage. As for the number of impressions, it would, for instance, be equivalent to people who viewed the signage for at least one second or two seconds. These are concepts that are similar to views or clicks in online advertisements. I believe this technology is necessary in further streamlining physical stores by transplanting this online experience to the real world and optimizing displayed content.



**Services: WFH Security**

**RemoDesk ensures safety and security for WFH operations**

**Utilize built-in PC camera**



**Utilize external camera**



**Remote monitoring to ensure governance**



**Examples of detection items**



- By simply **logging into the link** from a web browser, the user's **PC's camera access is obtained**, and the AI detection is operated at the **edge within the PC** utilizing the user's PC CPU, **maintaining user privacy**.
- No footage shared outside of PC



The next service is a recently-launched service called RemoDesk. The starting point of this service can be understood from the backdrop of the coronavirus outbreak, which made it difficult to appropriately handle call center operations.

What this is, is access to cameras from Web browsers through the cameras that are built into personal computers. By doing so, as you can see from the bottom of the slide in the middle, there's a screen called RemoDesk that pops up. When call center operators log in to this service, then the browser obtains access rights to the camera. Thus, as shown in the photos on the right side, the camera can capture all kinds of behaviors of operators.

For example, it captures when the operator is away from his or her seat. It also captures spoofing and peeking. The worst action an operator can do is take a photo of the screen with a smartphone. Therefore, when having call center operators work from home, it's crucial to ensure that they are properly protecting the personal information of customers.

The images on the top half are functions primarily aimed at managing and monitoring such prohibited actions, while on the bottom half, the images are useful in ensuring the ease of working or preventing the sense of isolation of operators. These are the more defensive aspects of this service. To create an environment that is easier to work for such people, the service detects any excessive signs of fatigue and provides that information to group leaders.

This is similar to the concept where recent cars have a function to alarm drivers when they have been driving for an excessively long time without any break. We provide this service to support the creation of an even more friendly working environment even when working from home by detecting eye fatigue or body fatigue that often goes unnoticed by the person.

This service is starting to be adopted by call centers. But, looking ahead, we target not only at call centers but also in remote work in general. Therefore, we are aiming for its utilization across broader fields.

# Fashion analysis enables product planning, EC marketing, and O2O\*

**Item detection from social media**

**Automatic classification of detected items**

**Trends over seasons and years**

**Contributions across the country**

- Digitizing apparel product planning
- Used to plan products for 3,000+ stores nationwide

**Winner of Deep Learning Business Award**

Awarded for contribution to the reduction of incinerated clothing waste and improvement of gross profit margins at apparel co. (contribution to ESG)

**AI MD engine also used to analyze consumer personas (business vs casual) in public spaces**

\* An abbreviation for Online to Offline, a marketing strategy that links online and offline to promote purchasing activities.

Last but not least, this is our Fashion Analysis Business, which we have been doing since the time of our founding. This is one of our mainstay businesses.

Up to now, we have been detecting fashion items from social media images, as shown on the upper left. Then, based on those detected images, we classify the age and attributes of the model and attributes of the items worn by the person by type or color, as well as the styling, though this is not written here.

For example, in terms of clothes, it detects attributes such as wide-loose pants, tight-skinny pants, or standard pants. We have been providing such service for over two years now.

We refer to this as AI MD. MD is an apparel jargon for merchandising. We offer this merchandising, or MD, using artificial intelligence. We have been promoting AI MD for over two years in merchandising operations.

The apparel industry is currently facing severe circumstances under harsh economic conditions. Still, the introduction of our AI MD has fortunately increased for three consecutive years. There are now 3,000 stores that use our service to plan products and release them.

Then, what is the reason why the expansion of our AI MD has made so much progress even against these tough circumstances in the apparel industry? For the past two seasons, we have already been involved in product planning for two years' worth of products, where we have repeated the process of analyzing sales after product launch and leveraging that data for the next products. Client companies have seen a significant improvement in the gross margin for products implementing AI MD, and that is why customers are continuing to use this service for a very long time.

While it is true that the overall apparel industry is in dire straits, it is also a fact that apparel companies are increasingly being separated into winners and losers. There are many companies among our clients that are actually producing very strong results despite the coronavirus.

Against this backdrop, we must tackle the issue of shortening the product implementation cycle. Up to now, many companies have conducted their product planning nine or ten months in advance of actual market launch. However, with the recent outbreak of the coronavirus, coupled with unpredictable factors like rain or hot summer, industries that used to forecast such matters are increasingly struggling to do so.

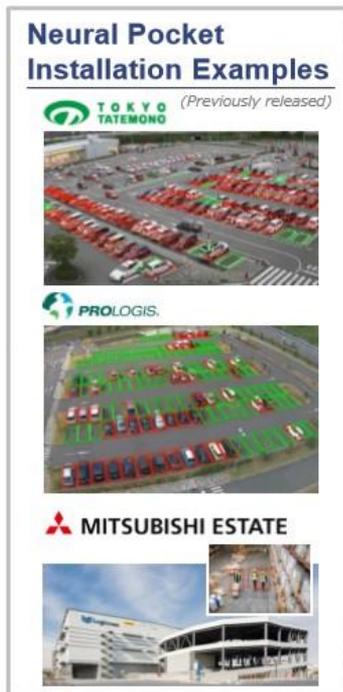
Under such circumstances, planning for a product nine or ten months in advance is a tall order. By using AI MD, customers can have a clearer outlook on trend forecasting three to six months in the future. Then, the question becomes, how much shorter can the product cycle be, and how far out can planning be done. If that can be known, the latest digital information can be used to conduct accurate demand forecasting.

To illustrate, it is like catching fish using a fish finder. This enables a highly efficient customer attraction, and the probability of products being sold definitely goes up. Then, that would lead to a higher gross profit. This is what we have been continuing to do for the past two seasons. This is a business that is performing extremely robustly.

That was the summary of the six services that we have currently created at this stage in order to realize a smart city.

New business creation will continue to be a focus area. However, for the next one or two years, our focus will not be so much on increasing the number of services because we have already made some progress there. The most pressing management issue at hand is to increase the number of customers adopting our services by deepening them even further.

## Sales strategy 1: Installation to independent sites



### Universe of Neural Pocket AI service installation sites (# of locations within Japan\*\*1)



\*1 Source of each: Number of parking spaces: Surveyed by the Japan Parking Association, National Parking Status Survey 2019; Number of car navigation systems: surveyed by the Japan Electronics and Information Technology Industries Association; Number of retail stores: from the Ministry of Economy, Trade and Industry's commercial statistics; Number of buildings: Ministry of Land, Infrastructure, Transport and Tourism's Stock Building Statistics, Non-residential buildings; Estimated average gross floor area per building (10,000 m<sup>2</sup>); Number of call centers: surveyed by the Call Center Human Resources Evaluation System Promotion Consortium; Vending machines: surveyed by the Japan Vending System Manufacturers Association.

Toward that end, I would now like to introduce two sales strategies.

The first strategy is the horizontal application of services across facilities. This is the so-called horizontal deployment on the horizontal axis.

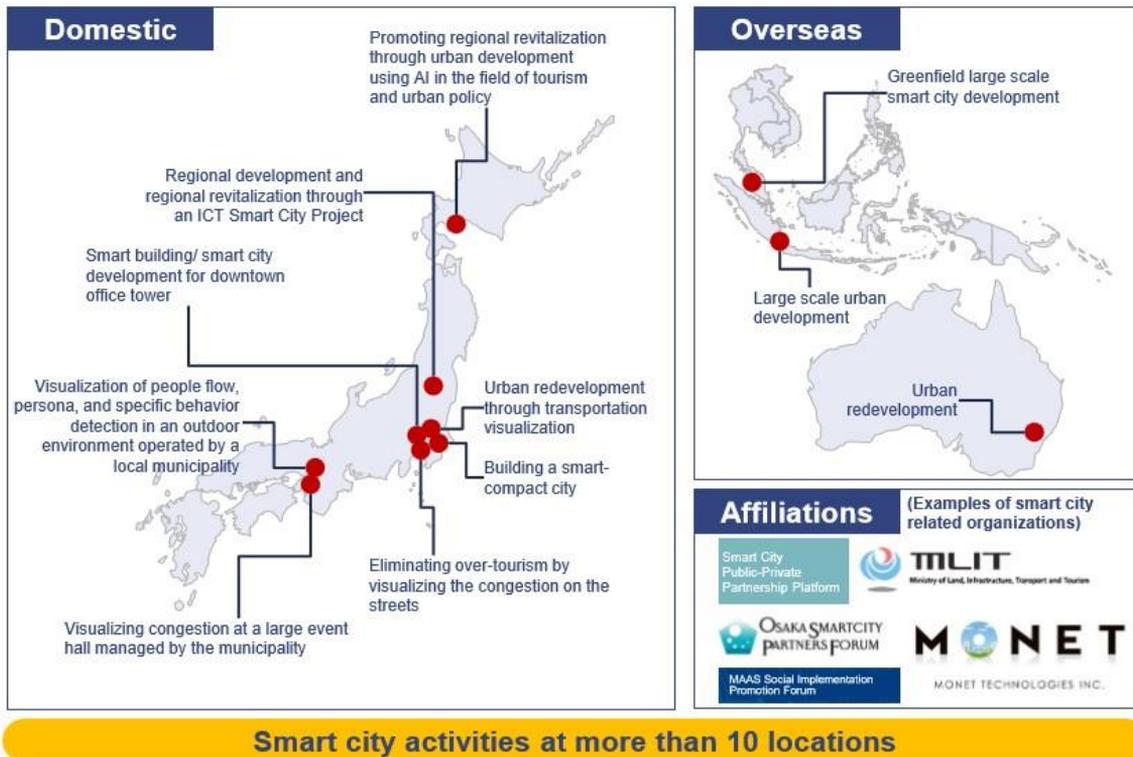
For example, as shown on the left side, the feature of the parking lot service, which is one of the six services I explained, is that it becomes difficult to scale horizontally if the service needs to be customized.

The reason why we narrow down our focus on these six services at this point is that we want to generalize each one of those services. This is the so-called generalization of technology, meaning that customers can apply general-purpose services regardless of slight differences in the type of facility, and this has been the focus of our development.

For example, to explain why this is good, there are currently 5.2 billion parking spaces across Japan, which is the potential target of implementing our parking lot service. There are 1 million retail stores. There are 200,000 buildings. And there are 900,000 call center seats. Rather than indiscriminately expanding services, we are focusing on spreading the service as much as possible. For example, in terms of parking spaces, we are working toward service adoption in as many parking spaces as possible.

As for the digital signages that I mentioned earlier, we believe what's needed is the deeper and broader penetration of such signages in retail stores and buildings. Thus, we are now focusing on such horizontal development.

## Sales strategy 2: Installation to urban development and governments



\*Note: Areas circled in red are project sites where the Neural Pocket is engaged in activities.

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At the same time, we are focusing on vertical deployment. Rather than horizontally deploying each service, we are looking to offer a packaged solution that vertically integrates all services. This is an implementation method of offering such a packaged solution in large-scale urban development projects.

Several of such projects that we can disclose at this point are plotted on this map. The feature of this sales method is that it not only includes the replication of services and repeated implementation, as in the case of horizontal deployment, but also the need for selective introduction.

For example, depending on the town, there are varying social and urban issues in each different town. Some towns face issues such as parking spaces and traffic congestion, while other rural cities grapple with increasing depopulation and require watch-over services.

Against such circumstances, by figuring out the optimal combination of packages and making improvements to them, there is no need to customize for each project. Thus, we aim to implement services in an effective manner through packages.

Therefore, these are not projects in which we customize each one, but when selecting the packages, it becomes important to carry out the proper discussions with the towns.

The reason why we also want to strengthen our sales activities for this Vertical Business is because of the surge in large-scale urban development, as I mentioned earlier.

That is, regarding the parking lot service I mentioned earlier, this is a long-tail business where implementation will eventually unfold on its own automatically. However, when it comes to urban development, the question posed is whether we have a track record of such town-level development.

For example, we are doing urban development overseas, such as in Southeast Asia, and what we are asked very often is if we have a track record of such projects.

Therefore, we aim to build our experience through our involvement in such large-scale urban development in addition to short-term sales generated quite substantially depending on the town. Our expectation is to also generate lump-sum sales from such large-scale projects. When doing so, we consider increasing this vertical-type track record to be indispensable.

By joining the affiliations shown on the bottom right and participating in government, chamber of commerce, and forums of private enterprises, we can enter the discussions and decision-making processes of urban development inside and outside of Japan. And I believe this is a necessary element as an AI company.



## FY2020 Q3 Key Highlight Summary

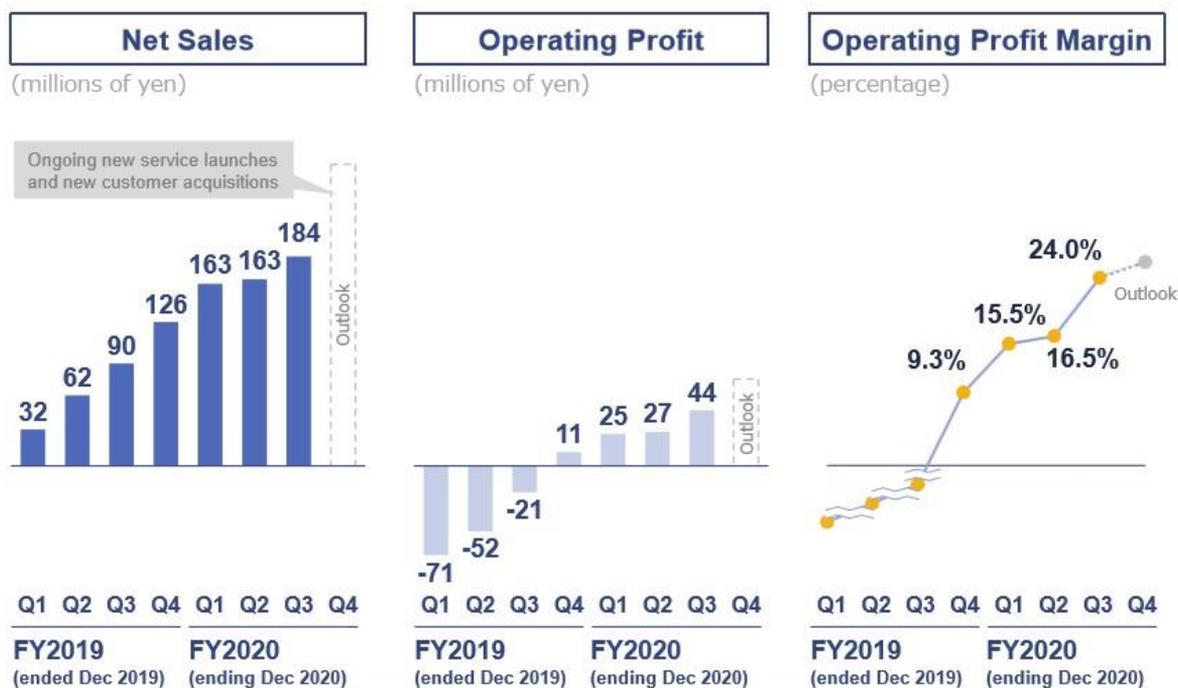


\*1 The sum of the shares offered or sold through IPO and shares recently sold by major shareholders. 497,200 shares offered through public offering, 215,800 shares sold through public offering (including over-allotment), and 1,488,000 shares sold by major shareholders, as recognized by the company's own research, as a percentage of the 13,971,200 shares outstanding as of October 31.  
\*2 As of September 30.

The next section is a highlight of our business performance, which I will go over briefly.

Please see page 18 for the performance highlights. As for the sustainability of growth, for seven consecutive years, we have repeatedly posted higher sales and profits. Our operating profit margin is roughly 24%, and progress has been made in patenting our technologies.

## FY2020 Q3 Financial Performance



**Business progressing in accordance to the annual plan**

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Regarding the actual P&L, the top line, operating profit, and operating profit margin have all trended stable, as shown here.

We have provided these three metrics consistently as our KPI from even before our pre-IPO roadshow. These performance metrics are all stable. From the beginning of our founding to this day, we have continued to realize our budget. There are no particular surprises this time, and we consider a similar outlook in the future.

## FY2020 Q3 Statement of Income

| (millions of yen)       | FY2019     | FY2020     |         | FY2019        | FY2020        |         |
|-------------------------|------------|------------|---------|---------------|---------------|---------|
|                         | Q3 results | Q3 results | YoY     | Q1-Q3 results | Q1-Q3 results | YoY     |
| <b>Net sales</b>        | 90         | <b>184</b> | +103.9% | 185           | <b>511</b>    | +176.5% |
| <b>Gross profit</b>     | 57         | <b>162</b> | +181.1% | 118           | <b>466</b>    | +293.0% |
| GP margin               | 63.8%      | 87.9%      | +24.2pt | 64.2%         | 91.2%         | +27.1pt |
| <b>Operating profit</b> | -21        | <b>44</b>  | -       | -144          | <b>96</b>     | -       |
| OP margin               | -          | 24.0%      | -       | -             | 18.9%         | -       |
| <b>Ordinary profit</b>  | -22        | <b>30</b>  | -       | -150          | <b>75</b>     | -       |
| <b>Net profit</b>       | -22        | <b>30</b>  | -       | -151          | <b>75</b>     | -       |
| NP margin               | -          | 16.4%      | -       | -             | 14.7%         | -       |

This is the income statement.

## FY2020 Q3 Financial Results Forecast

| (millions of yen)       | FY2019            | FY2020              |         |
|-------------------------|-------------------|---------------------|---------|
|                         | Full-year results | Full-year forecasts | YoY     |
| <b>Net sales</b>        | 311               | <b>776</b>          | +149.4% |
| <b>Operating profit</b> | -133              | <b>165</b>          | -       |
| OP margin               | -                 | 21.3%               | -       |
| <b>Ordinary profit</b>  | -139              | <b>139</b>          | -       |
| <b>Net profit</b>       | -139              | <b>115</b>          | -       |
| NP margin               | -                 | 14.9%               | -       |

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As for the financial results forecast, we have no changes at this point.

If there is news that arises going forward, we intend to make timely disclosures, but at this point, we do not expect any particular change. However, this fiscal period is still progressing, and there may be instances where we receive unanticipated projects through business negotiations. If such matters arise, then we will make timely disclosures at the appropriate timing when they become necessary.

## FY2020 Q3 Balance Sheet

| (millions of yen)               | FY2019       | FY2020       |                |
|---------------------------------|--------------|--------------|----------------|
|                                 | As of Dec 31 | As of Sep 30 | vs 2019 Dec 31 |
| <b>Total current assets</b>     | 919          | <b>1,528</b> | +608           |
| Cash and deposits               | 825          | <b>1,371</b> | +545           |
| <b>Total non-current assets</b> | 137          | <b>205</b>   | +68            |
| <b>Total assets</b>             | 1,056        | <b>1,734</b> | +677           |
| <b>Total liabilities</b>        | 431          | <b>617</b>   | +185           |
| Interest bearing debt*          | 378          | 565          | +187           |
| <b>Total net assets</b>         | 625          | <b>1,117</b> | +491           |

- IPO +411 million yen
- Interest bearing debt +187 million yen
- etc.

\*Interest-bearing debt is the sum of short-term debt, current portion of long-term debt and long-term debt.

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As for the balance sheet, there has been a slight increase in cash and deposits. This has been the result of our efforts to strengthen ties with banks for around the last two years, in addition to the equity funding from IPO. Fortunately, we have received very strong support from banks, and we are working to strengthen our balance sheet while exploring the effective cost of capital.

## Latest Free Float Weight



\*1 Total 415,000 shares offered and 215,800 shares sold (including over-allotment) as a percentage of the 13,784,000 shares outstanding as of August 20.  
 \*2 Company has confirmed 1,488,600 shares sold by major shareholders as of Oct 31.

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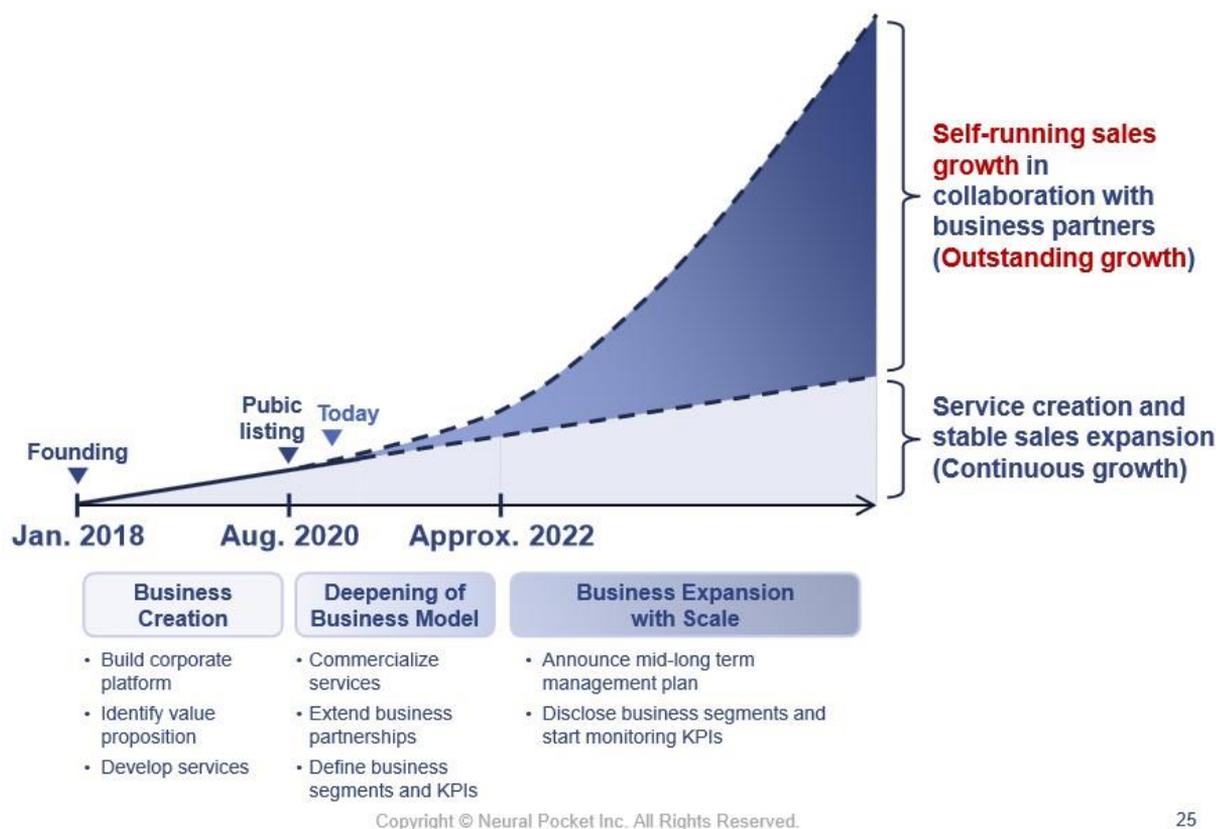
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We received many questions from shareholders regarding this point, so this time we disclosed this information within the scope of our knowledge. We have been reprimanded by many people regarding what they considered to be a too-small ratio of placement via IPO. Many institutional investors have provided us with feedback that the stock is difficult to purchase unless the free-float weight is a little higher.

As a company, we have been conducting activities up to now to increase the free-float weight next year. Partly because of the high share price following our IPO, there was faster-than-expected progress in VCs selling their shares in our company. As a result, the ratio of the free-float rate has increased at an accelerated pace ahead of schedule.

Now that the free-float ratio of our shares has increased, we now look forward to focusing more on our dialogue with institutional investors. This is not only limited to domestic investors. We would also like to have an active dialogue with overseas investors, given that we also operate our business overseas.

## Future growth strategy



This is the final slide, and it is about our future growth strategy. This slide reflects our response to the content of the questions we received through past dialogue with shareholders.

As for how to look at this graph, it is divided into three phases from a short, medium, and long-term perspective, starting with the time of our founding.

As I already explained, the Company was founded in January 2018, and from the time of the founding, we already had in mind creating the structure to publicly list the shares by the middle of 2020. The reason why we took the Company public was because of the social responsibility that we should carry as a listed company in deploying the AI business inside cities.

Also, we have always thought that it would be essential to listen to the feedback of many shareholders in ensuring the proper business development and construction of a business model. For the two-and-a-half years up to now, we have been focusing on creating new businesses, solidifying our corporate structure, identifying social issues, and generating services.

As for the next phase, we have written out two points on the left side regarding what we envision.

The first benchmark is around 2022. We will further deepen our business model over the next one to two years, though I am not sure if it will be early or late 2022 at this point. I will disclose this at the appropriate timing depending on the progress of the business.

As for what we mean by this, in this slide, it says, "commercialize service." This is similar to what I mentioned earlier about the general implementation of services. In other words, it is the application of our services that

can capture wide-ranging demand. Essentially, this means the deployment of services that do not require customization. Going forward, we will increase the adoption of our general-purpose services while regularly updating them.

This can be likened to Windows. First, Windows was rolled out, and then it got upgraded to 2000, and then XP, and so forth. Likewise, we will first roll out the service and then upgrade it with patches. By making progress on the implementation of such upgrades, we aim to advance the use of general-purpose AI services.

The second point says, “extend business partnerships.” The reason why this is important is that it is indispensable in realizing the growth trajectory plotted on the upper light of the graph shaded in dark blue.

That is, we are a service provider of artificial intelligence. Although we have a few sales team members, we do not have any intention to conduct sales activities through a team of several hundred sales members inside the Company. We also do not intend to run major TV commercials. Those are not part of our strategy.

Instead, we intend to partner with companies that will help deploy our services to more companies through revenue sharing. But, of course, in the horizontal deployment scheme like the parking lot service, we will also directly meet and discuss with major business operators, and we are in the middle of such discussions.

Naturally, these partnerships apply to telecom carriers, hardware companies, software companies, and other developers. In such a way, we intend to horizontally cover the entire value chain.

For example, if it is a parking space, by partnering with companies in the value chain associated with parking spaces, we can also contribute to their growth. By forming such win-win partnerships that also contribute to our growth, we wouldn’t need to make rounds to every single company or visit each and every base. This will be a “self-running sales growth,” as we wrote on the right side in red font. This collaboration with business partners is something we consider to be an indispensable element to realize the self-running sales expansion of our services. We have had large partnerships in the past, too, but we want to expand that substantially over the next one to two years.

Once that is done, then we would have clearer visibility around the third and fourth points, which are to define the business segments and formulate KPIs.

We have received feedback up to now regarding our segment information. People have asked us to disclose the breakdown of sales and the content of KPIs.

If we wanted to, we could disclose those figures at any time. However, we have continued to delve deeply into what would be the most appropriate way to segment the business and which KPIs would be most reflective of our business.

For example, would it be the correct segmentation if we were to divide the six types of services into six segments? Or, would it be more appropriate to divide it into the horizontal and vertical business models that I just explained? Or, is it better to disclose it by the type of our business partners, because we have a lot of business partners?

Or, should we do it like other companies, which are dividing their business into recurring and non-recurring sales? Or, should it be a combination of them? Or, should it be a disclosure broken down by domestic and overseas business? Or, should it be a disclosure that combines those elements? We have struggled a lot thinking about this matter up to now.

We believe that defining the business segments and the KPIs that can be monitored continuously would contribute to the business’s future transparency. We intend to implement this as soon as possible. We hope

to create a structure that enables the successive announcement of results in which we have made progress in turning into KPIs.

Finally, as for the period after 2022, I believe this will be a stage of bolstering the self-running sales growth, as shown on the upper right.

At that point, we would be able to formulate a medium-term management plan. In other words, once we define the KPIs, then we would be able to forecast the market share growth, annual growth, or operating growth based on KPIs, and then we would also be able to disclose the forecast for the self-running growth shown on the upper right.

At this stage, we have written on the bottom right that we aim for continuous growth, as we have done up to now. On the slide for the P&L, I showed earlier, with the three graphs for net sales, operating profit, and operating profit margin. The graph shown here illustrates the continuation of those trends.

In other words, without this self-running sales growth, there will be no outstanding discontinuous growth. It will be growth in a straight line. This is an element that is essential in creating services and independently implementing them. However, our medium-term policy is to aim for growth by combining that with self-running sales growth.

To summarize, the social issues that we have been working to solve is the digitalization of physical spaces by putting eyes throughout cities toward the realization of an AI smart city revolution.

In addition, we will implement these six specific services towards this end. As for the sales strategy, I mentioned that it would be a combination of horizontal deployment across single facilities and vertical deployment as a package solution introduced in towns or large-scale facilities.

Lastly, as a future business policy, we aim not only for continuous growth but also discontinuous growth over the next one to two years. To do so, I have explained that our near-term management plan policy is to focus on the commercialization of services and the extension of business partnerships.

While promoting such activities, we hope to carry out business development in a way that further meets the expectations of our shareholders.

This concludes my presentation.

## Question & Answer

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**Toyoda:** We will now begin the Q&A session. The answers will be provided by CEO Shigematsu and CFO Somehara.

Please keep your questions up to two per person. If your question is related to the presentation material, please indicate the page number when asking your question.

Mr. Ryo Kobayashi, please go ahead.

**Kobayashi:** Thank you for the presentation. This is Kobayashi of Mizuho Securities. I have two questions.

First, this is a near-term question. Please see page 19. For the 4Q net sales forecast in the fiscal year ending December 2020, you expect a further jump from 3Q. Specifically, from which business domains do you expect this growth? That is my first question.

**Shigematsu:** The business that has grown particularly strongly in terms of what is shown here has been the vertical-type urban development. In addition to the large-scale projects we have received for urban planning, we also see growth in RemoDesk, which I explained earlier as software that we launched in response to the novel coronavirus. On top of the progress we made up to the third quarter, we see more demand emerging.

**Kobayashi:** Thank you. I would like to ask for a simple follow-up regarding the first point. How is the Signage Business progressing?

**Shigematsu:** The Signage Business's implementation has expanded significantly. We will disclose the implementation status at the appropriate timing. I consider the stable operation of the equipment after installation in this business has progressed even better than we anticipated, and the penetration inside cities has gone smoothly.

As disclosed in a results presentation in the past, once the number of units installed exceeds a certain number, then the annual contracts begin to increase beyond the initially planned number and expand the Company's sales. This is the business model, and it has already been implemented.

Progress has been steadily made on this front. In addition, we have been combining this with tests of operational status and troubles when installing these signages. These tests have shown that our signages have been operating with very high stability.

To give you the background, this is an edge device, where edge equipment is embedded inside the digital signage. The data captured by the signage is then transferred through communication. Thus, it is an extremely new model of edge equipment digital signage. The foundation for the stable operation of these signages has been laid to a large extent. Therefore, I believe we will be able to achieve the anticipated number of units next year. Once we are in a position to share the details, we will disclose them in an appropriate manner.

**Kobayashi:** Thank you. Then, I would like to move on to my second question.

Second, in terms of the Company's growth driver in the future, I believe the major pillars are the Signage Business and Smart City Business when breaking it down by business type. What would be the image of the startup timing of these businesses? For example, would the Signage Business be the driver in the next one to two years, and would the Smart City Business be the driver thereafter?

**Shigematsu:** These businesses are growing at a relatively stable pace. As I showed earlier, the growth trajectory is a straight line. This is a service where the number of installed units increases dramatically following the commercialization phase. The Signage Business is approaching very close to this timing in terms of operational status. I believe there is a sufficient likelihood that this would grow.

This also applies to smart city. The number of towns is increasing. So, these are the two business areas, as you just said, Mr. Kobayashi. We believe they can be pillars for the Company next year. However, we also believe the horizontal implementation will be considerably fast once stabilization progresses in the parking space and RemoDesk businesses, because the services are very easy to understand. However, as a company, we would like to wait until giving the details for another one or two months when publishing the business plan for next year.

Relatively speaking, what's important is to discern when the commercialization phase is completed. At present, we are carefully watching which of these four areas will grow. That said, progress has been made in all businesses towards implementation. Sorry, I'm not sure if that answered your question.

In terms of the pillars, as you say, they are signage and smart city. However, the upsides are the parking space and RemoDesk, which are areas where the company holds great expectation.

**Kobayashi:** I understood very well. Thank you very much.

**Toyoda:** Next, Mr. Toru Kamata, please go ahead.

**Kamata:** Thank you for the valuable presentation. My name is Kamata from Nomura Securities. I would like to ask two questions.

First, in recent years, I get the impression that many companies, not only ventures but also large ones, are starting to talk about AI and business initiatives. On the page you are on right now, for the period from 2022 onward, what do you view as the medium-to-long term situation in terms of the position of AI in the world and the situation of each company in this picture? That is my first question.

Second, what kind of position do you think Neural Pocket will establish in that situation? Also, please explain the differentiation factors that would enable you to achieve rapid business expansion from 2022 onward.

Those are my two questions.

**Shigematsu:** Thank you. I believe a lot of progress has, in fact, been made in the AI industry.

Up to now, just by having the development technology of deep learning, that was considered a differentiation factor. However, when recently talking with various management-level people in many companies, these operating businesses have deepened their understanding of AI more than we expected.

The deepening of understanding can be explained from several standpoints. First, in some cases, companies have consigned development projects to AI companies and have experience using AI. In some cases, they have experience in hiring an AI engineer in-house to develop their own AI. There is a considerable increase in the number of such companies.

Against such circumstances, as in the case of Japan, the same can be overseas markets, such as Southeast Asia. When we are in business discussions, there are similar trends taking hold. For instance, they have had Chinese companies introduce such services in the past, so they ask what is different. Just because we are using artificial intelligence, that alone is no longer something that is praised offhandedly.

On the other hand, there is actually the fact that we have seen a significant reduction in opportunities of being asked what kind of detailed logic or algorithm is behind artificial intelligence.

We also didn't mention a lot of the technical matters in the presentation of our results today. Greater interest seems to be on whether the AI is usable, whether it can be scaled like SaaS, whether it's easy to use, and whether the quality is fine when implemented, rather than the detailed algorithm of machine learning. It is a fact that a growing number of companies are now demanding solutions all the way through stable operations.

Our positioning can be considered against this backdrop. I haven't discussed the difference in engineering capabilities that much today, but that is something that we take pride in. However, instead of appealing those strengths, what matters is how broadly these services are used. As a result of using them, what kind of benefits were achieved? Just because a company has deep learning technology, they will not win. They need to produce differentiation factors based on social benefits, such as reduced cost or increased customers.

In other words, in terms of the business model, I believe it is like a game software business. First, you create a service, and then you put it into software.

Then, once the game is made and people enjoy it, then it spreads by word of mouth, and more and more people buy it. When actually selling the game, all you need to do is copy the software. The company does not bear that cost, so game companies enjoy a very high profit margin. In the same manner, it is essential for artificial intelligence companies to commercialize their business and reach the phase of stable operation through engineering capabilities.

The strength of Neural Pocket, as I touched on earlier in response to the question about digital signage, is that we have considerable operations that are running stably. Even if you look around the world, there are not that many AI companies with the track record of having installed and then maintaining stable operations continuously inside actual cities.

Therefore, depending on how these services can be broadly and stably implemented, self-running sales growth can be achieved. Essentially, we consider that our track record has been built on the fact that we have developed services that are positioned almost like products, in which the artificial intelligence is consumed when other companies sell them on behalf of us. That is a strength that we will leverage as we move forward.

**Kamata:** Thank you. That's all.

**Shigematsu:** Thank you.

**Toyoda:** Next is Mr. Ryozo Minagawa.

**Minagawa:** This is Minagawa of SMBC Nikko Securities. I have one question.

How would the Company's sales break down in terms of recurring and non-recurring sales?

When I look through the transactions in past securities filings, it seems there are some companies with a relatively high sales composition ratio that have appeared but then disappeared later. If that was something that happened in the past, but will not occur in the future, could you explain that to me, please?

**Shigematsu:** Basically, almost all of our sales are recurring. To name just one, there was a contract with Sanyo Shokai that was terminated due to poor earnings. However, in terms of all other main clients, there are no projects in which contracts have been ended.

Therefore, the recurring ratio is very high. As disclosed on page 25, you can see that sales will grow stably in a straight line. This indicates the strong nature of our recurring sales.

However, the growth in this recurring business is not necessarily a driver that would contribute to the outstanding growth of the business. Rather than the simple question of whether this recurring business continues, what we believe is the key is whether these recurring contracts expand even more broadly and start to realize self-running sales growth.

That is the reason why we have not disclosed the recurring ratio this time. If asked how much is recurring, then it is almost all recurring.

**Minagawa:** Okay. Thank you.

**Toyoda:** Next is Mr. Isao Okumura. Please go ahead.

**Okumura:** This is Okumura of Global Investments. I would like to ask a very basic point. When looking at your securities filings, there are names of some very large customers. Is this a structure where these customers serve as your specified sales agent of specific services, and that is how sales are growing substantially?

Although the sales growth pace changes dramatically at the timing of around 2022, for the runup period to that point, do you expect to realize growth through sales expansion via such major partners in the existing businesses?

**Shigematsu:** Yes, in general, as you said, we have contracts with several sales agents. These are companies that sell our services together, so they are our business partners. None of the six services are sold by sales agents under an exclusive contract, meaning that all services belong to Neural Pocket.

However, depending on the service, the type of company that takes interest varies. For example, while there are companies that strike a chord with the Signage Business, there are also sales agents for the Fashion Business. I believe it is a crucial factor to have many sales agents become interested in our services.

As for the sales growth driven by service creation and independent sales expansion, there will be sales received from agents, while also we will directly provide businesses with services without intermediaries. Thus, it's difficult to speak of one separately from the other. However, as you stated, we would like to increasingly grow the ratio of agency sales. This means that we will continue to cherish the large agency partners that we have disclosed in past results while also expanding the base.

**Okumura:** Thank you. My other point is that there are other companies that offer services from the angle of using AI or video. However, I don't think there are many companies that have such a breadth of services with six different types. I have the impression that in each separate domain, there are other companies that have expanded sales substantially through various trial and error. Could you please explain what kind of competition there will be in each domain?

**Shigematsu:** There are actually quite a few competitors. When doing business in urban development, there are a lot of competitors among major system integrators.

We conduct various urban development projects, and naturally, when doing so, we have transactions in daily operations with various places like major real estate businesses, local governments, and the administration. What we notice through these transactions is that there are not many venture company names that are mentioned. Honestly, the ones we hear most often are major system integrators.

For example, in Japan, this includes a major Japanese system integrator. Overseas, a question that we are asked very often is the difference between Neural Pocket and SenseTime in China.

As for these system integrators, there are companies that we come into competition in negotiations, but recently there are also cases where they form a partnership with us in the most suitable ways, such as asking

us to handle the AI development. I believe this competition with major companies and ventures is something that cannot be avoided. That is the situation in terms of urban development.

However, in terms of RemoDesk, there aren't any competitors. The services on the bottom, like RemoDesk, fashion analysis, and signage advertisement, are areas with almost no serious competition at this point. The same goes for 3D city maps.

Rather than a battle with competitors, these are areas in which we consider important how much the use of such technology grows more familiar in society. I believe it will be necessary to realize the proliferation of the usage of such technology, and progress must be made on that front.

**Okumura:** By the way, I think this fashion analysis service is highly innovative. Have there been results at customers who use this service of seeing visible contributions to sales growth or other tangible results?

**Shigematsu:** In terms of the Fashion Business, there have been significant results. As of the points of today's release, we have not prepared specific company names. As I stated earlier, this business is posting powerful sales and profit growth. Results are emerging, and other than the case of Sanyo mentioned earlier, there is not a single case of cancellation. This business is posting very strong growth in the number of customers.

In response, we have made it one of our priority areas to strengthen product planning that implements AI MD. That is why we included the Fashion Analysis Business in the smart city scheme.

There have been frequent discussions recently regarding the post-implementation phase of fashion analysis. In other words, after the product is rolled out, there is also the potential for implementation of signage in apparel stores, the connection between signage and ecommerce, and changing recommendations on ecommerce based on fashion analysis. In terms of the development of the Fashion Business, I believe there are possibilities for advancement in a new format in the future.

**Okumura:** I understand. Thank you.

**Toyoda:** Is there anyone else with questions? Mr. Tsuge, please go ahead.

**Tsuge:** This is Tsuge from the Nikkei. Thank you for the presentation.

Regarding the part on the last page where you said you intend to increase the number of partners, I would like you to tell me a little more about this.

I believe that you are already partnering with telecoms companies and real estate developers, and that you are looking to further deepen your collaboration with business partners and trading companies. Going forward, in which areas do you think the number of partners will increase significantly? Could you please share your outlook regarding how many partners you expect to increase from the current level?

**Shigematsu:** Sure. In regard to that question, I believe there are three areas of focus.

The first area is, as you just stated in your question, telecoms operators. As you know, these are operators that have a very stable base of high earnings.

However, from their perspective, the growth prospect of telecoms in Japan going forward has started to moderate. Thus, all four major carriers now consider the investment in AI and IoT as a common issue. I believe the consideration of these major companies regarding new investment destinations or business partners in this AI domain is a very significant factor.

Also, we are a company that utilizes edge AI technology, meaning that the SIM cards offered by telecom operators are a vital infrastructure that cannot be separated from our business. In this respect, we have already disclosed our partnership with SoftBank up to now. In addition to further enhancing this partnership, we are making efforts to form a collaboration with other carriers, too, as an area of focus.

The second area is the collaboration with real estate businesses, as you pointed out. We do business together with almost all of the real estate operators. I believe that the more important aspect of this front will be the strengthening and deepening of partnerships.

For example, in terms of real estate companies, there are many that develop commercial buildings, office buildings, and other mixed-use buildings as part of urban development projects. At Neural Pocket, we partner with these operators, and we have started introducing our services to the assets possessed by them. Then, if that partnership works well in one town, we expect it to spread to the next town, and then to the town after that. That is what I mean by deepening the partnerships.

This applies to not only towns but also industrial cities, which I have omitted in today's presentation. We are placing considerable emphasis on the utilization of AI in industrial cities. For example, some real estate companies are not only strengthening operations in cities. Recently, there has been an increase in companies that create the infrastructure for distribution and logistics. Those are also areas that we want to enhance.

In a news release, we made a disclosure regarding the digitalization of logistics warehouses together with Mitsubishi Estate. The deepening of relationships, including such examples, with existing real estate business partners in addition to telecom operators is the second area of focus.

Third, we are putting a lot of effort into the administrative domain. With regard to this point, when working on urban development, then, naturally, it is impossible to solve social issues only between private companies, and it requires collaboration with the government. Urban development is always done through a partnership between the private and public sectors. During such a project, we hope to gain a better awareness of our business among administrative officials. That way, when they plan to revitalize towns, they will approach us.

Also, in Japan, what I frequently hear from the administration is that when foreign dignitaries visit Japan, they often request to visit because they want to apply Japan's smart city technology overseas. We aim to build collaboration so that they will mention our name in such cases. Although we wrote that we would expand business partners, we also believe it is crucial to have such a partnership with the administration.

Regarding the others, there are also various partnerships, such as with system integrators and trading companies. The primary approach would be to place emphasis on building a deeper relationship with these business partners as the three foremost areas of focus.

**Tsuge:** Okay. Thank you very much.

**Toyoda:** Is there anyone else with questions? Mr. Isao Okumura, please go ahead.

**Okumura:** Sorry, I have one more question.

My first question is about recurring sales. In what way are you receiving these sales? For example, I imagine that when delivering your service, you are also implementing equipment together. For instance, are you receiving recurring sales from the rental of equipment, such as the camera or signage? In other words, do you book recurring sales for the period that customers use this equipment?

**Shigematsu:** It is as you say regarding recurring sales from the introduction of equipment. However, as we have disclosed, our cost of sales is very low, so in fact, the equipment themselves are not owned by us.

When implementing our services, the equipment is actually purchased directly from the manufacturer or purchased through our sales agent. We request the sales agent to order the equipment.

Therefore, by providing AI in a stable manner to the companies who have implemented that equipment, we receive a subscription fee, and this is the most clear-cut form in which we post recurring sales.

Meanwhile, there are also businesses in which we have partnership agreements that result in a certain amount of annual fee. In fact, there are several types of recurring sales we are generating at the moment. This is another area that we hope to clarify in the future, and we will discuss the disclosures regarding business segmentation and the nature of their recurring sales, as I mentioned earlier.

**Okumura:** Another question is about how you said that you have already made deliveries related to smart city. What kind of facilities should we go to if consumers, like ourselves, wanted to actually experience Neural Pocket's AI?

**Shigematsu:** Thank you. That's a very good question.

There are, in fact, several places where our AI is installed. We have implemented AI in a number of large towns in a lump sum. However, we haven't been able to disclose it due to considerations about the other party. Once the timing is right, I would like to disclose the towns in which we would like you to visit. I hope you will wait a little longer until the timing of the release.

**Okumura:** Okay. Thank you very much.

**Toyoda:** Are there any other questions? There doesn't seem to be any additional questions, so we would like to end the Q&A session.

Thank you very much for participating in the financial results briefing for the third quarter of the fiscal year ending December 2020 of Neural Pocket Inc. This concludes the meeting.

**Shigematsu:** Thank you very much.

[END]

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#### **Document Notes**

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