



**Neural Pocket Inc.**

Q1 Financial Results Briefing for the Fiscal Year Ending December 2021

May 17, 2021

## Presentation

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**Moderator:** It is time to commence the meeting.

Thank you very much for taking time out of your busy schedules today to participate in the financial results briefing for the first quarter of the fiscal year ending December 2021 of Neural Pocket Inc. I will be the Moderator today. Thank you.

Today's presentation will be based on the financial results presentation materials that were disclosed on our IR website on May 14. We will share the screen via Zoom, and those who participate by phone are welcome to view the materials on our IR website. In addition, filming or recording of this briefing is prohibited.

Now, let me explain today's flow. First, Shigematsu, Chief Executive Officer, will give a 30-minute presentation on business overview and performance. After that, we will have a question-and-answer session until 1:00 PM at the maximum. Both Shigematsu, Chief Executive Officer, and Tane, Chief Financial Officer, will answer your questions.

We are using the Zoom video conferencing system today. Please include your affiliation and name in your account name, as this will be used to nominate a questioner for the question-and-answer session.

Thank you for your patience. Shigematsu, Chief Executive Officer, will now give an overview of our business and performance.

CEO, please go ahead.

- **Business Overview**

- FY2021 Q1 Business Progress
- Performance Highlights and Growth Strategy

**Shigematsu:** Thank you for joining us today while you are busy. I would like to announce our financial results for the first quarter of FY2021.

Today, there are 3 sections. The first section is the business overview.

The outline of our business, which I have been explaining since we went public last year, has been greatly improved and is now much more qualitative, so I believe we were able to give a more condensed explanation today.

The second section presents the progress of our business in the first quarter. We have achieved the increase in both sales and profit this fiscal year again, therefore, we are confident that we have achieved strong growth in both quantity and quality. I will talk about it as well as performance highlight and growth strategy. In particular, I believe that this year, FY2021, is a very important year for the growth of our business.

At the moment, there is a lot of good news and bad news in the AI industry as a whole, but for our company, we will continue to make steady progress in our business, and we are strongly committed to the further evolution of this business model in order to demonstrate stronger leadership in the AI industry. I would like to explain about this in the third section.

## The future we envision

Neural Pocket provides digital services for physical spaces to enhance real world experiences through introducing intelligent AI cameras

# “AI Smart City Revolution”



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Let me begin by explaining what we are aiming for.

First of all, as I explained in the previous full-year results, our goal remains unchanged: the AI Smart City revolution.

What this means is to deploy that AI technology in the town. By quantifying the information in real space, where digitalization has not progressed much so far, such as the movements of people and cars, we will aim for our goal of solving social issues that have not been easily solved in the past through the integration of technologies.

## A large new Smart City market is being created

**Global Smart City market size is approx. \$1-2 trillion USD**

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

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

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



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With regard to the reason why AI is suited to the domain of the Smart City, first, in terms of numbers, the Smart City market is very large globally.

The fact that the market size is large means that there are naturally business opportunities in that, but not only that, it is synonymous with the fact that the social issues and problems that need to be solved behind the business opportunities are also large. This is the reason why Neural Pocket is working on areas that will generate such a large social impact.

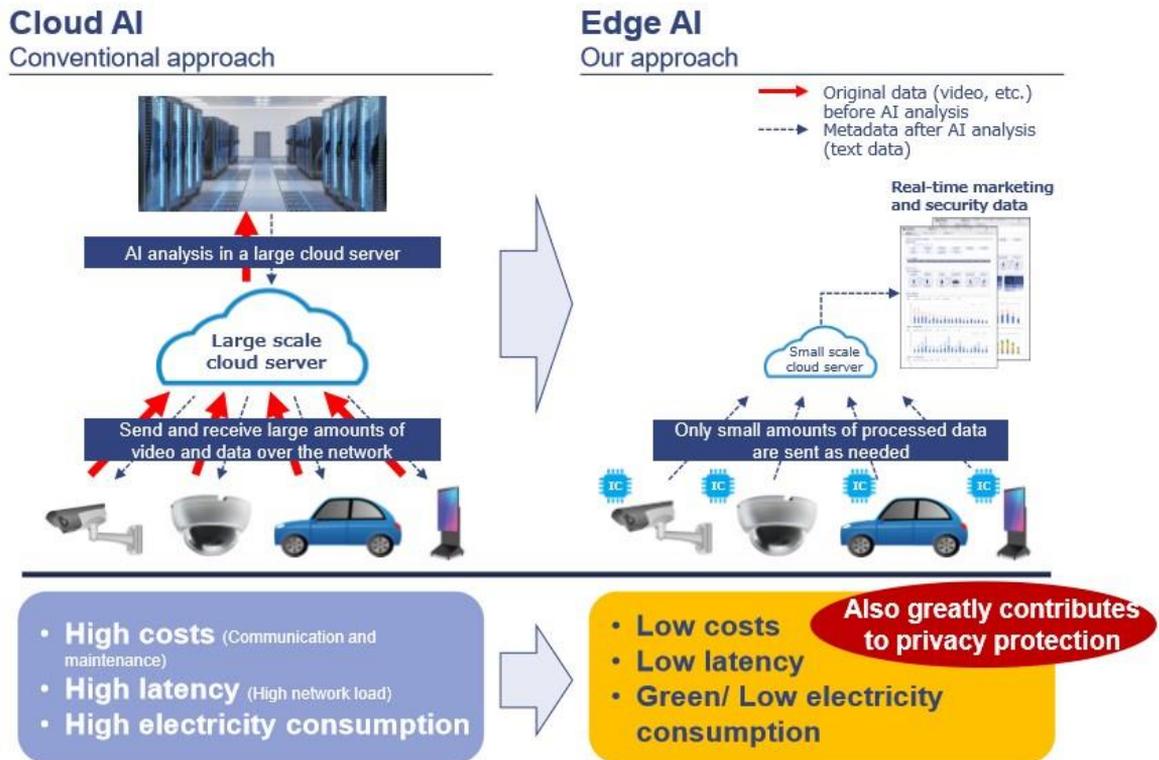
As you can see on the right, we have bases in Asia, and we believe that we are in a very dominant position in the Smart City market, where Asia is driving growth and globalization, as I have already explained.

As to why Asia is taking the lead, in Asia, Smart Cities using AI and IoT are often built by clearing forests, for example, in some countries.

In Japan as well, although it is different from those countries, it is more of an aging town and, in a sense, a fully matured Japanese town can be digitized at once and become a town where the elderly can live comfortably. This is the case in Japan.

We understand that this is due to the fact that these countries in progress, as well as markets like Japan that are already mature are, in a sense, very good test cases for Smart Cities in the world. In this context, I believe that new technologies will be integrated, and Smart Cities will advance in the future with a focus on Asia.

## Edge AI is a technology that overcomes many of the problems traditional Cloud AI faces



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Another feature is that we have been promoting Edge AI for some time.

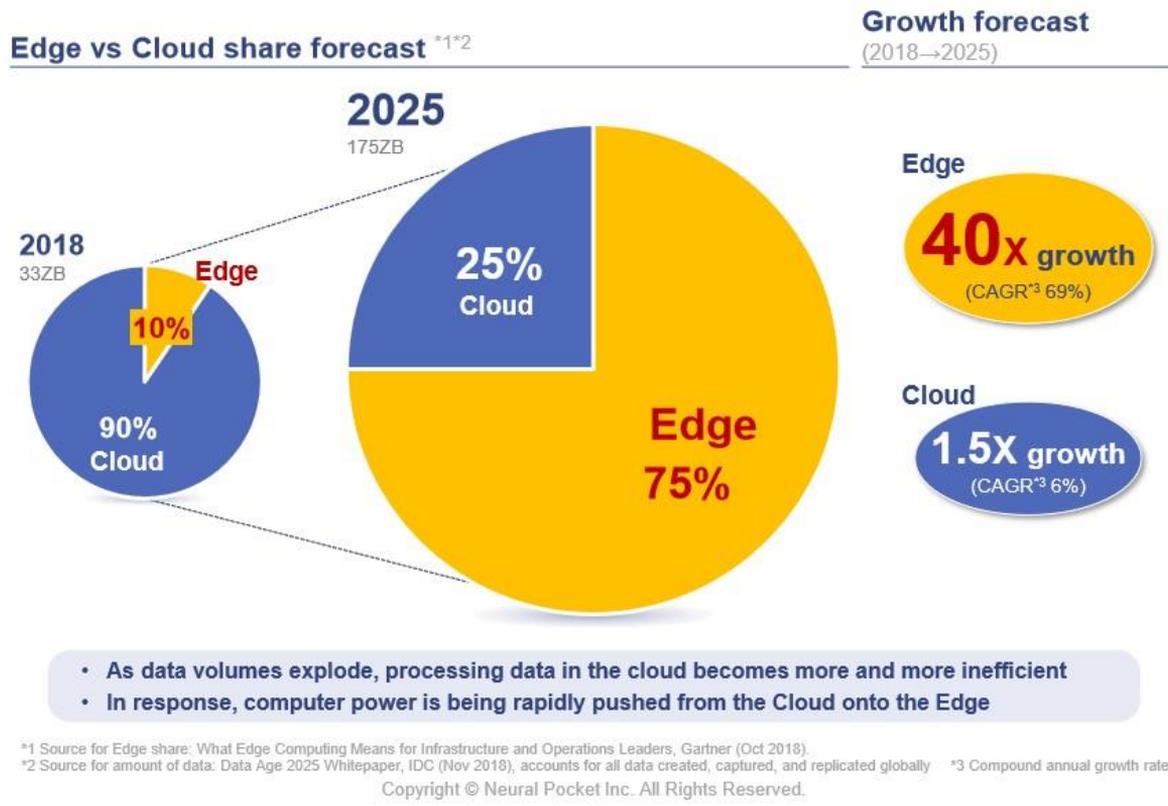
There are 2 major types of AI technology: AI that is processed in the cloud, or server room, and AI that is processed on the Edge, or terminal side. While each has its own merits, cloud AI is more advantageous for processing games and for performing very deep calculations in a limited number of cases.

Of course, this will be processed by AI in the server room so it will be expensive and there will be some delays, but that is acceptable to some extent. In situations where power consumption is acceptable, processing by maximizing the full AI power of the cloud has been the mainstream way to utilize so-called supercomputers.

On the other hand, the Edge is said to be very suitable for Smart Cities, where there is no need to perform very complex operations, such as reading 1,000 moves ahead in a game.

If anything, the analysis of the people, cars, things, et cetera, in front of us is very limited in terms of the amount of computation. How we do this at low cost, with low latency, real-time performance, low power consumption, and privacy protection is very important, as I have already said. However, the reason we are focusing on this area is because it has a high affinity with Smart Cities.

## A large macro trend from the Cloud to the Edge is expected

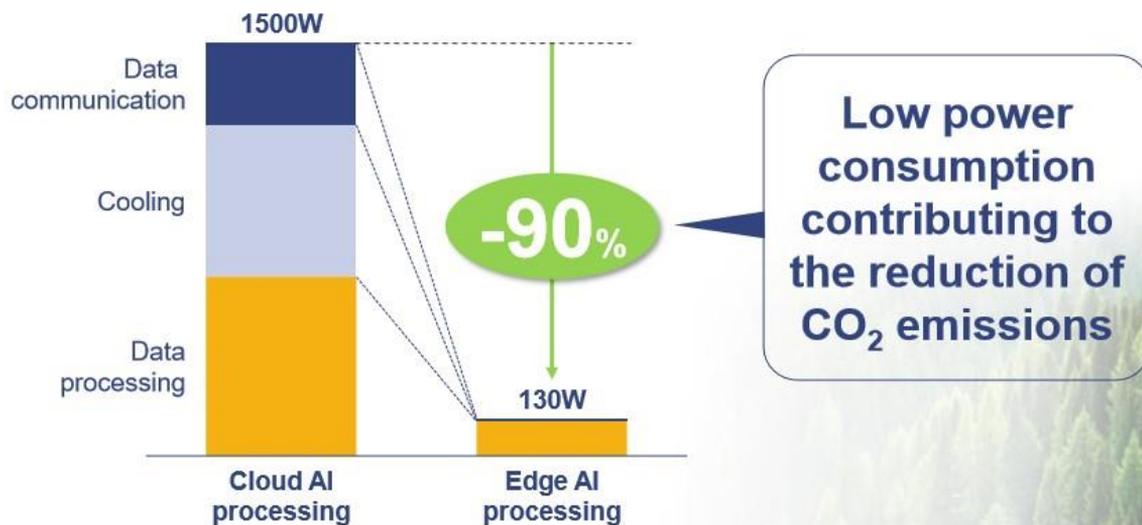


These are the data from Gartner.

Until now, AI and so-called IoT processing has been dominated by the cloud until about 2018. On the other hand, with the recent evolution of Edge technologies and the increasing number of use cases where such data processing is done in the city, it is becoming less and less realistic to transfer images to the cloud for processing in the cloud. In such a situation, this Edge-side technology is expected to grow at a very large scale.

## Edge AI technology contributes to carbon neutrality and SDGs

### Power consumption for AI processing per 100 cameras\*\*1



Comparison of power consumption when AI processing (object detection) for 100 cameras is performed in a cloud vs edge system, respectively. Company research.  
 Cloud AI : Object detection at 4FPS on NVIDIA V100 (112 TFLOPS, 8 GPUs), parallel processing 679 cameras, which is the theoretical limit calculated assuming a 20% GPU utilization efficiency. Video data transfer rate per camera is assumed to be 450MB per hour.  
 Edge AI : Object detection at 4FPS with NVIDIA Jetson TX2, parallel processing 12 cameras, which is the theoretical limit calculated assuming a 20% GPU utilization efficiency. Metadata transfer per camera is assumed to be 3.6MB per hour.  
 Total power consumption is converted to a value per 100 cameras to compare the two methods.

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There is one more thing that we consider extremely important in working with local governments, administrators, and the private sector recently, and we have added it here this time.

When processing with AI in the cloud, we naturally use a server room, where images are transmitted from cameras. It would be accompanied by this data transmission. Also, this server generates a lot of heat, so it would be necessary to keep the air conditioner on all the time with a very strong breeze. We will need the electric power to keep the air conditioner on to cool the equipment for 24 hours a day, 365 days a year.

At the same time, a full computer is used to process the images, so it takes a lot of electric power to do the calculations. If you keep analyzing the images from 100 cameras, you will consume about 1,500 watts of power all the time. What is great about doing this at the Edge is that data transmissions can be reduced by many orders of magnitude. In other words, we do not send the image, but only the text data and metadata after the image has been analyzed, so the transmission volume is reduced.

There are both fanless and fan-equipped Edge devices, but we use fair amount of fanless devices as well. Then the fans themselves would hardly be needed. In addition, the computation itself will be done with a much more compact AI, which will reduce the energy of the computation itself.

In this way, the power consumption can be reduced by more than 90% when the same AI processing is done in the city, which is actually a very big factor. Recently, our services have been adopted by various municipalities, government agencies, and public institutions, and I believe that one of the reasons for that is largely due to the fact that our approach is green and eco-friendly.

## We provide AI enabled services that contribute to the reduction of CO<sub>2</sub> emissions and the pursuant of SDGs



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I will explain the contribution to society that we are aiming to make through these services, and why our services are being used.

For example, the Digi-Park service, which is a car detection service, can help reduce traffic congestion. This will not only reduce traffic congestion, but also reduce the cost of managing parking lots and, at the same time, reduce traffic congestion and CO<sub>2</sub> emissions.

In the case of apparel business, of course, the gross profit margin has improved by about 5%. In addition to these profit aspects, we are reducing the disposal of high-quality clothing.

Another example is RemoDesk. This has been growing steadily. The advantage of RemoDesk is, of course, that you can work from home. By working from home, various cost reduction would be possible. For example, call center companies can reduce the cost of having operators commute to work and also reduce the rent for office space.

In each of these themes, in addition to cost reduction and profit improvement, we have become increasingly convinced that social contribution, CO<sub>2</sub> reduction, and the SDGs are closely related to the business.

## We have developed and provide six smart city-related AI services



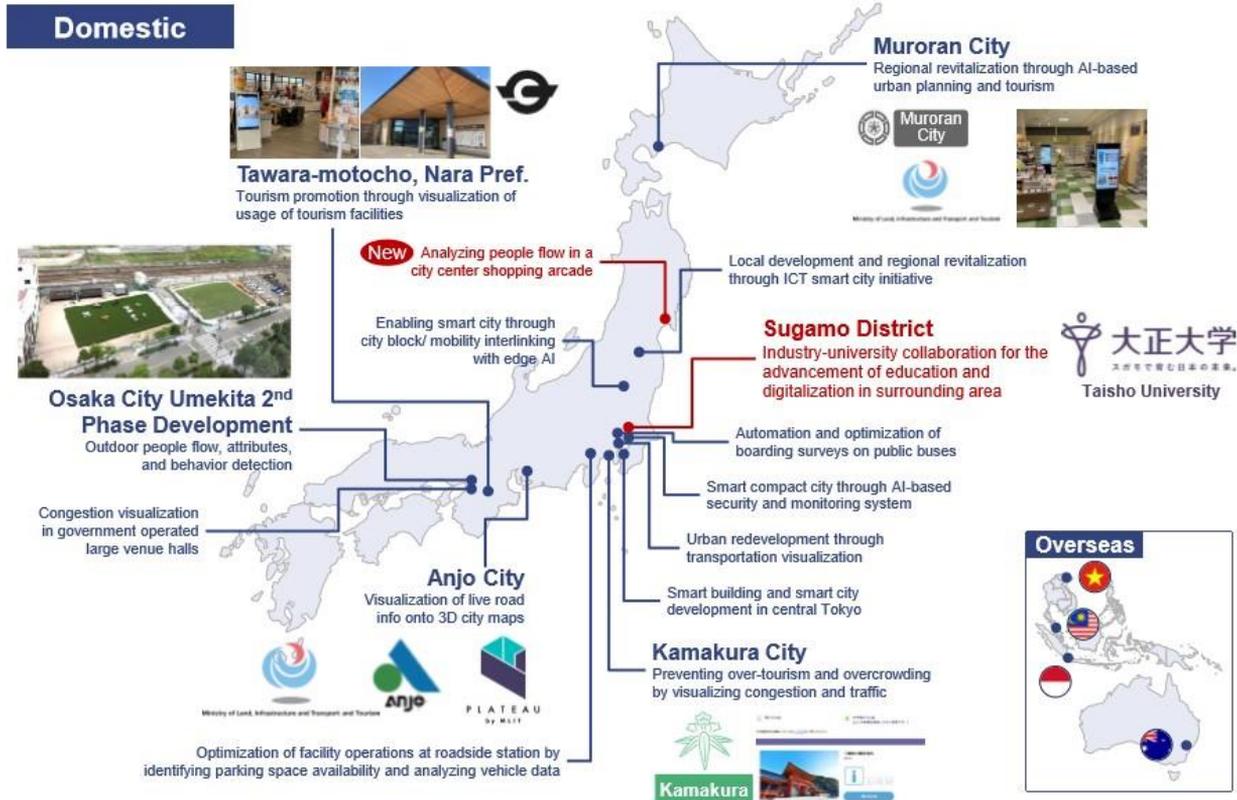
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This is the detail, so I will skip it. If you take a look at our previous full-year financial results for FY2020, you will see that each and every service is explained in detail.

In terms of the number of services we will offer in FY2021, we will focus on these 6 services and, rather than increasing the number of services, we will improve the quality. In other words, we would like to focus on scaling.

## Domestic and overseas smart city-related engagements



Now, let's look at the business progress for the first quarter. First, this is for local governments.

We have made additions this time. One of them is the Sugamo area on a public announcement basis, and the other is a town in the Tohoku region.

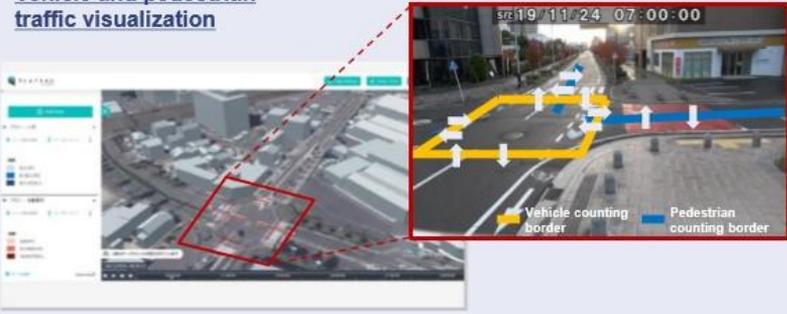
In the case of the public administration, each town that has introduced our system has been using it successfully and continuously. In addition to this, we encourage the use of our service within each of these towns. For instance, Digi-Park can be developed in the town where signage has been used. In the advancement of such horizontal development, we are working with local governments and administrations on the initiatives smoothly.

## Joined 3D city model project promoted by the Ministry of LITT\*1

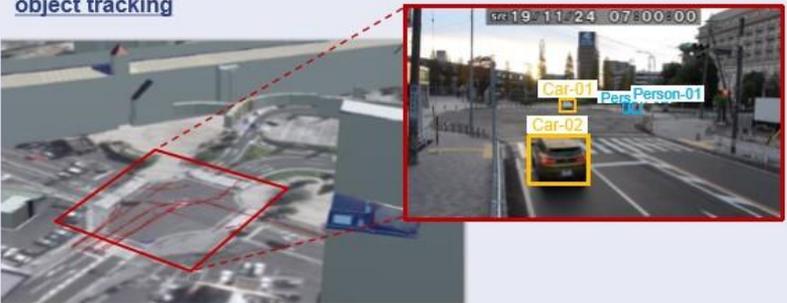


- Joined 3D city model project "PLATEAU" promoted by the Ministry of LITT\*1 as a project partner
- Visualization of urban activities in Anjo City
- Analysis of camera footage to display people flow and vehicle traffic within live 3D city model

### Vehicle and pedestrian traffic visualization



### Map position plotting via object tracking



\*1 Ministry of Land, Infrastructure, Transport and Tourism

This is PLATEAU by the Ministry of Land, Infrastructure, Transport and Tourism, which I have explained in the previous session, and the progress of the project is disclosed by them. As you can see on the right, the analysis by the system of measuring the amount of traffic of cars and pedestrians and monitoring the object has been progressed well, and we are in the process of introducing these systems.

## Collaboration agreement with Taisho University



- Signed **industry-university collaboration agreement** with Taisho University
- Promote **data utilization** and **digitization** in university education and research activities
- In addition to campus smartification, promoting digital transformation across Sugamo district, surrounding the campus
- "Saizeriya (large restaurant chain)" and "Mitaka City" also joined as third-party partners to pursue collaboration

This is for an academic institution.

Until now, we have not worked with academic institutions, but we have just started working with Taisho University. From now on, we would like to focus on this kind of collaboration with universities, as well as the use of the technology in academic fields.

## Installation of "Digi-Park" to Tokyo Ryutsu Center



A  MITSUBISHI ESTATE Group Company

- Installed "Digi-Park," an AI parking and vehicle management solution, in Tokyo Ryutsu Center's Logistics Center<sup>\*1</sup>
- Visualization of on-site traffic through camera images enabling efficient facility operations

### On-site traffic detection



<sup>\*1</sup> 東京都大田区平和島にある東京流通センターの運営する物流センター

This is the case with private companies. This is Tokyo Distribution Center of the Mitsubishi Estate Group.

We have been building a very deep relationship with Mitsubishi Estate Co., Ltd. since the year before last, and we have made progress in installing the system in distribution centers and logistics centers like this. We would like to further strengthen our partnership in the future.

# Optimizing training data collection and AI detection accuracy with CG technology



\*1 See examples published within <https://blogs.unity3d.com/2021/04/09/boosting-computer-vision-performance-with-synthetic-data/>

This one is a little interesting. We don't often explain technology in our earnings announcements, but we are keen on these technologies, which is our feature.

When we ask our customers why they use Neural Pocket technology, many of them say that it is dramatically more accurate. As for why the accuracy is so high, we have a lot of secret recipes, and this CG technology is actually one of them.

That is, the basis for deep learning is for AI companies to start collecting the data. I regret to say that there are some AI companies that do not collect data, but such companies end up doing nothing more than contract development. AI companies as a service provider that have moved beyond contract development will naturally collect data, and such an approach is of utmost importance.

We also use traditional approaches in some of our services. As you can see on the left, for example, in the case of hazardous material detection, we collect learning data on such hazardous materials. Naturally, we have to be creative in how we collect the data, and it is normal to use a web crawler that automatically collects data by crawling on the Internet. Even so, sorting the data we collected through crawling one by one is actually a manual process.

When we first started the analysis for the apparel business, we used the conventional approach shown on the left side, which is to collect images one by one, and we told you before that we have collected about 4 million images. This is the culmination of manpower work. Even with human power, we can collect 4 million pieces of data, which is still one of the strengths in dealing with the apparel business.

However, it would be impractical to gather the data all by manpower to expand this to various businesses in the future. In that case, we can use the approach of using CG as shown on the right side. We introduced the example for car number plate at our IR meeting last year and we used the same approach for that. I think that using CG to automatically create learning data is an approach that will bring about innovation in the way AI companies collect learning data.

For this approach, we are working together with an American company called unity. Using unity's CG service, for example, if you have a single image of a bat like the one above, you can create countless learning data from this single CG by changing the angle, the background, the distance, and the quality of the image.

For example, if you want to create 100,000 or 1 million pieces of data, a person would have to collect 1 million pieces of data, but with CG, you can create 1 million pieces of data in an instant. With this, we can achieve a dramatic reduction in required time and improvement of accuracy. As described here it will save 95% in the red arrow at the center of the page.

From now on, I think that the way AI companies collect learning data will probably change globally to this kind of approach. Without this, it is basically impossible to achieve such an overwhelmingly high level of accuracy, and I believe that this was a very important technological innovation.

**Technology Development**



**Compliance with AI development and data security policies**

**Compliance with government issued guidelines for data acquisition and AI development**

**Certified information security management system in place to manage and protect data**



**Privacy Mark**  
Japan Industrial Standards (JIS)



**Certified since Mar 2019**

**ISO/ISMS Certification**  
International standard



**International certification newly acquired in May 2021**

This is also an important point. Compliance with the guidelines is naturally of utmost importance when AI is to be introduced in a wide variety of areas. Japan is no exception, and western countries are also very strict when it comes to information guidelines, but I believe that these are the basic skills for the social implementation of AI.

We have been complying with such guidelines as the Camera Utilization Guidebook shown on the left side since our company was founded. We have also been Privacy Mark certified, but this time we received ISO technical and information security certification, which I think is a very important point and milestone in our growth story as we expand our business globally.

**Technology Development**

## Status of Patent Acquisition

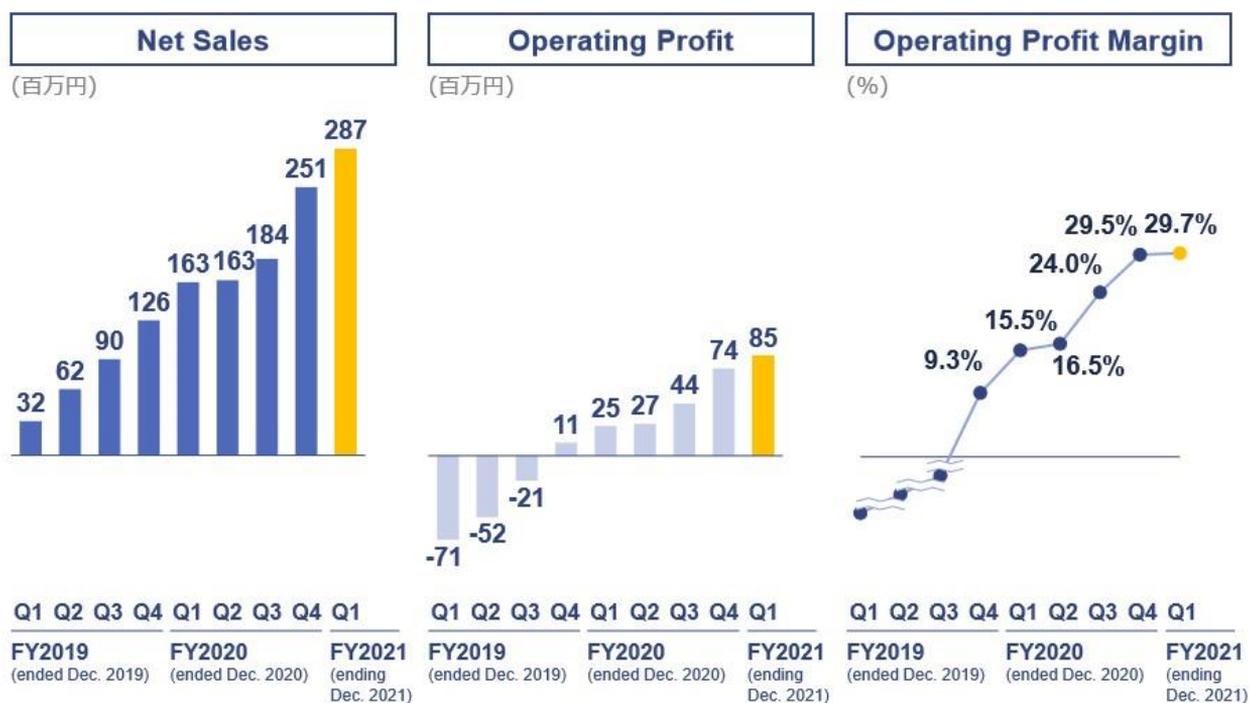


I would like to introduce one more technology, that of patents. Although we did not cover it at our last full-year financial results briefing, we have made progress in applying for and obtaining patents.

We have already been granted 12 domestic patents and 10 are pending. Overseas applications are also progressing gradually and, although we are often told that we have issued a lot of patents for Japanese companies, AI companies in China, Europe and the US actually issue about one order of magnitude more patents every year.

Therefore, in order to secure our technological superiority, we need to continue to acquire patents, otherwise we will not be able to win when we compete on the world stage. We would like to move forward again here in the future.

## FY2021 Q1 ended Mar. quarterly trajectory



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This is the performance highlights.

The business is progressing smoothly as planned. Both sales and profits increased.

As for operating income, as I explained in the previous financial results, we have kept it at the 30% level this time, but I think this level will be fine for the time being.

I am sure that institutional investors and individual investors will have their own ideas about the future, but many investors are expecting significant growth around 2022 and 2023. We have met with about 70 investors in the past 3 months, and they have always instructed us to deliver solid results. With this in mind, we would like to proactively invest in technology to contribute to this kind of significant growth.

## FY2021 Q1 ended Mar. Statement of Income

(million JPY)	FY2020 Q1 ended Mar.	FY2021 Q1 ended Mar.	Increase (amount)	Increase (percentage)
<b>Net sales</b>	<b>163</b>	<b>287</b>	<b>+124</b>	<b>+76.4%</b>
<b>Operating profit</b> <i>% of net sales</i>	<b>25</b> <i>15.5%</i>	<b>85</b> <i>29.7%</i>	<b>+60</b>	<b>+237.4%</b>
<b>Ordinary profit</b> <i>% of net sales</i>	<b>24</b> <i>14.9%</i>	<b>84</b> <i>29.3%</i>	<b>+59</b>	<b>+246.2%</b>
<b>Net profit</b> <i>% of net sales</i>	<b>24</b> <i>14.9%</i>	<b>83</b> <i>29.1%</i>	<b>+59</b>	<b>+244.8%</b>

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This is a detailed P&L. This is in line with the plan.

## FY2021 Q1 ended Mar. Balance Sheet

(million JPY)	FY2020 Q4 ended Dec.	FY2021 Q1 ended Mar.	Increase (amount)
<b>Total current assets</b>	<b>1,673</b>	<b>1,780</b>	<b>+106</b>
<i>Cash and cash deposits</i>	<i>1,424</i>	<i>1,455</i>	<i>+30</i>
<b>Total non-current assets</b>	<b>247</b>	<b>263</b>	<b>+16</b>
<b>Total assets</b>	<b>1,920</b>	<b>2,044</b>	<b>+123</b>
<b>Total liabilities</b>	<b>714</b>	<b>695</b>	<b>(18)</b>
<i>Interest bearing debt</i>	<i>564</i>	<i>563</i>	<i>(1)</i>
<b>Total net assets</b>	<b>1,206</b>	<b>1,348</b>	<b>+142</b>

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There is no change in the balance sheet, but cash flow is slightly positive, so there is a slight increase in cash and deposits in the balance sheet.

## Future growth strategy (Illustration of business growth)



This is our growth image, and it is progressing steadily as well.

Basically, the stable growth shown on the lower side has been achieved for a long time, but we have been planting the seeds for outstanding growth, which is shown on the upper side. In this context, the green technology I mentioned earlier, information security, and the strengthening of technological capabilities may seem like a long way off, but I believe that they are essential elements to support the growth of our company and to have our AI accepted by society in a broader sense.

In this context, we have focused on leveling the ground, and we are very confident about this.

## Management policy for FY2021

### From fee-based to unit-based sales

**In addition to expansion through individual contracts with companies/ governments, we aim to accelerate self-propelling sales from generalized services**

#### **【Theme 1】 Expansion of co-creation partners**

Expand required elements such as sales, maintenance and support, and bidding rights for government through partnerships or mergers and acquisitions as needed

#### **【Theme 2】 Towards easy-to-use AI services**

Pursue ease-of-use of services designed around customer needs  
Aim to achieve 10,000-unit service system, with high AI service quality and operational stability

#### **【Theme 3】 Commitment to AI technology dev.**

Collect and accumulate the industry's leading level of data  
Continue to invest in the dev. of optimal AI logics using proprietary learning technologies, including CG

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Finally, I will explain the theme for this fiscal year.

The theme for this fiscal year is to move from a fee-based to a unit-based approach. In terms of what it means, if you look at our services most of them have been individual contracts with companies and governments. We have been expanding our sales through such contracts with so-called large corporations and governments.

As I have been saying since last year, our goal is to make our services more generalized and easier to use, and to expand sales by implementing more and more of them, which we call unit-based. Therefore, the number of units will automatically expand, and we will be working on this for this year.

In this effort, we have 3 themes in mind, one of which is to expand the number of co-creation partners. We do not have any intention of having 1,000 or 2,000 salespeople yet, so naturally we have been conducting sales by promoting joint business development and sales through sharing sales with these co-creation partners.

We will increase the number of co-creation partners for this kind of sales. Increasing the number is one way to increase the number, and also to improve the quality of it. We will work on this expansion.

The other thing is maintenance and support. Recently, we have been expanding our services to a larger extent, and maintenance and support would be important in this context. We do not do it ourselves and have been asking companies that cover the whole country to provide maintenance and support for our cameras. We will further strengthen the effort in this area.

In addition, since we are increasingly working on the business for government, we will work with the companies that have bidding rights for the projects. It says here that we will expand through M&A as needed. We will not hesitate to conduct M&A if we deem it necessary in order to contribute to the expansion of co-creation partners.

The second theme is easy-to-use AI services. I believe that this is the most important aspect of the AI industry right now.

As I have said, we have not conducted any demonstration experiments, and we are promoting all generalized services. Our services have been used for many years continuously, and this is the basic for our company. Of course we are tempted to generate large profit in the short term, however, even if you make a large sale in one year, for example, it is meaningless if it is not renewed.

In order to be sustainable and grow rapidly with patience, we need to improve our services so that people will want to use them. We will need to provide services based on so-called generic needs. This is also true for RemoDesk and Digi-Park, and we would like to focus on these themes in our business development.

As it says here that we aim to achieve 10,000 unit service system, within the near future we would like to move forward with the goal of having about 10,000 units in use.

The third is our commitment to AI technology.

We have a technical team here, but in terms of technological development, the progress of AI technology in particular is constantly evolving, so we will continue to study the most advanced academic research, and when new, non-contiguous AI technology appears, we will incorporate it.

Naturally, CG technology is one example, but by adding new technologies like this, we will be able to provide better quality AI at a lower cost. By incorporating it into the services, it is necessary to realize AI services that people want to use at a lower cost.

These are the 3 themes that I would like to promote this year.

That is all from me.

## Question & Answer

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**Moderator:** We are now moving onto a question-and-answer session. Shigematsu, Chief Executive Officer, and Tane, Director, Chief Financial Officer, will answer your questions. We will limit the number of questions to 2 per person.

Mr. Kobayashi, Mizuho Securities Co., Ltd., please go ahead.

**Kobayashi:** Thank you very much for your explanation. This is Kobayashi of Mizuho Securities. 2 points from me, please.

The first point is about the status of the signage business and RemoDesk. I think that these are the 2 major services that are expected to grow at an outstanding rate in the near future. Please give us an update on the situation here.

Also, on page 23, there is a reference to 10,000 units. Is it correct to say that you already started to aim for it this fiscal year? This is the first question.

**Shigematsu:** First, in terms of signage services, we are collaborating with Softbank, and this service is expected to be officially launched soon.

The number of test installations has increased significantly, and the commercialization of the system has been progressing. Since we are working with multiple partners rather than just one company, naturally there is also the influence of other companies in the business.

In the last financial report, we mentioned that there was a slight delay due to the coronavirus pandemic, but it has been progressing smoothly since then, and we are planning a major service launch. Therefore, we think that once we start expanding sales in this area, we will be able to make rapid progress, and we are making progress in this area.

As for RemoDesk, the introduction has been progressing smoothly. As we previously explained, the introduction of the SaaS version is planned in May and this has been progressing smoothly as well. We are firming up the back-lab.

We need to hurry up with the development on our side, but for better or worse, this coronavirus pandemic has become the norm in our society. In this context, I feel that the use of the RemoDesk is long overdue.

For us, this type of service has high affinity. There are several companies that already provide this service as a backend to their existing systems. However, we think it is essential to provide it as a full package SaaS version and its development is nearly completed. That is progressing smoothly, and we feel that we have a need.

As for the 10,000 units, we are still accumulating concrete figures, but we are not going to say that we will achieve 10,000 units this fiscal year. However, we would like to set the goal of 10,000 units at early stage, and when we disclose KPIs on a unit basis, we will have these 10,000 units in my mind as a goal to certain extent.

It says that we will aim to achieve 10,000-unit service system. This means that, in the short term, we will first aim to establish a system that will allow 10,000 units to run properly. What this system means is, of course, the robustness of the service as one thing.

Some people with lower awareness say that it is fine if AI service can have 90% accuracy. However, when we run 10,000 units, we naturally need a very high level of stable operation. We are now working on making the system easy to understand so that it can operate stably and with a minimum maintenance and support system. This is going very well.

We would like to disclose the KPI in a timely manner as soon as we are ready for the actual KPI of 10,000 units, but we would appreciate your patience.

**Kobayashi:** Thank you very much. Now, this is the second question.

The inventory of products has increased quite a bit in the past 3 months, but what kind of service is this related to? Also, I am aware that orders are increasing here, is that a correct understanding? This is the second point.

**Shigematsu:** Thank you for your question. Regarding this, Digi-Park is a solution that we provide for parking lots, and we have received a rather large order for this project, which contributed to financial performance. The contract for the project in relation to this includes the delivery of such equipment and materials. You can think of this as a one-off factor.

When we receive orders for such services in the future, there are some cases where the delivery of such equipment is required at the same time and, in such cases, the cost of sales may be slightly higher or lower.

In the second fiscal year of our company, the cost of sales was slightly higher than the previous fiscal year, but that was due to the purchase of devices for the signage business. There are ups and downs due to such individual situations. However, we basically provide services in a way that does not generate much of cost of sales, so we believe that this is a one-off factor.

**Kobayashi:** Thank you very much for your explanation. That is all from me.

**Moderator:** Thank you very much. Do any of you have any questions? So, Mr. Takashi Murakami, please go ahead.

**Murakami:** My name is Murakami from SMBC Nikko Securities. Thank you.

Is it correct to assume that your company holds the patent for the technology for generating learning data that you developed with unity? How should we view the future of the spread of this learning method? Will it be used only by your company or will it become more open? Can you please comment on these points?

**Shigematsu:** Yes, I can. We do not consider the method itself to be patentable, as the technology is rather well known through academic papers. Therefore, we do not have a patent on this, and we believe that it is a patent that would not be of much use even if other companies were to issue it. So, that is the nature of patentability of the method.

Also, although it is written that we developed in collaboration with unity, we are basically using their CG, so this approach itself is unique to Neural Pocket, and we own the intellectual property rights for that.

You questioned whether this one would be used by us or by other companies. In essence, we can of course provide our services to other companies, but we are a company that provides our own services, and we are not yet selling the AI engine development method itself. Basically, we would like to use it for our own business, but if it became a business in itself, we would like to think about it again. At the moment, we are using it for our own use.

Frankly, this approach itself requires a certain level of know-how for collection method of learning data and the way to mix it, although we disclose the method for the changes of background and image quality, et cetera.

Naturally, we do not disclose this know-how, but it is very difficult to imitate this technology using only the disclosed information, so we believe that we can maintain our superiority in this area.

**Murakami:** Thank you very much. Second, I would like to have an image of the current sales. If you divide your sales into those that are already linked to ongoing revenue and those that are temporary, including research and development, such as PoC and project-like elements, what percentage of your sales is made up of these?

**Shigematsu:** Basically, everything is an ongoing thing. Our company has a strong policy of not accepting such projects for short-term profit, so we do not have any contract development or PoC.

Therefore, we receive a lot of requests to do PoC, but in our case, we already have 6 services that are already in use, so our service is not suitable for a demonstration experiment in terms of PoC. The question is what we are to demonstrate. If we are to demonstrate a technology, we will provide the API of our technology as a free sample to our customers for them to see.

For example, if they want to see our detection of vehicles or to see our technological capabilities, we ask for 30 minutes to analyze the sample data and provide the result for free. We do not charge for that. Therefore, basically, we do not conduct any demonstration experiments in that process as our policy.

This is why our company's sales have been increasing continuously. For this, we are working to achieve sustainable and solid growth without being conscious about such short-term profit too much.

**Murakami:** What is the current pace of the number of projects, or rather the number of projects that your company is undertaking?

**Shigematsu:** The number of cases is now over 20. In the first quarter of the current fiscal year, more than 20 cases have been recurring. Our largest customer contracts are roughly 15% of our sales. Therefore, even if we lose it, we will be able to continue generating profit. As I mentioned in the previous briefing, except for Sanyo Shokai Ltd. right after its establishment, none of our customers have terminated their projects, and we are continuing to work with them.

The reason for this is basically the ease of use and quality of the service. I think the fact that it was so easy to use after we installed it is most effective. Also, the other reason is that we do not have such short-term projects as we do not do demonstration experiments.

**Murakami:** Thank you very much.

**Moderator:** Thank you very much. Does anyone have any other questions? Since there are no additional questions, this concludes the question-and-answer session.

Thank you very much for joining us today for the financial results briefing for the first quarter of the fiscal year ending December 2021 of Neural Pocket Inc. We will now close the meeting.

[END]

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### **Document Notes**

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