



Neural Group Inc.

FY2024 Q3 Financial Results Briefing Meeting

November 8, 2024

Event Summary

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[Event Name]	FY2024 Q3 Financial Results Briefing Meeting		
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[Venue]	Webcast		
[Number of Speakers]	2		
	Roi Shigematsu		Chief Executive Officer
	Takashi Kisaka		Chief Financial Officer

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Presentation

Moderator: It is time for us to begin. Thank you very much for taking time out of your busy schedule today to join us for Neural Group Inc.'s financial results briefing for the 3rd quarter ending September 30, 2024.

Today's presentation will be based on the financial results presentation material disclosed on our IR site on November 8. We will be sharing screens via Zoom, but if you are joining us by phone, please visit our IR website to view the documents. 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 5:00 PM at the latest. Both Shigematsu, Chief Executive Officer, and Kisaka, Chief Financial Officer, will answer your questions.

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

CEO Shigematsu, please go ahead.

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Financial Results Briefing Material 7th term, Q3 ended September 30, 2024

Neural Group Inc.
November 8, 2024

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Shigematsu: Thank you all for joining us for today's financial results presentation. I would now like to present the results for the third quarter of our 7th fiscal year.

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

[Overview]

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

[Growth Strategy]

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

[Profitability]

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

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First, here is the summary. In fiscal year 2023, we focused on the maturation of our proprietary services. In 2024, we shifted to actively selling these services. As a result, following the positive momentum in the second quarter, our business continued to grow steadily in the third quarter. Revenue for the third quarter reached 908 million yen, representing a 10.9% increase year-on-year.

On the profitability front, we achieved our first quarterly operating profit in three years. Over the past years, we have invested heavily in developing AI services and strengthening our development capabilities and workforce. Now, we feel that these services have been accepted in the market and are scaling. Furthermore, as our service delivery structure has become more efficient, we were able to return to profitability. As of now, we are also making solid progress toward achieving full-year operating profitability for 2024.

Behind this achievement is not only growth in the AI market, but also expansion in related sectors such as digital signage and outdoor advertising. These trends indicate that 'AI x LED' and display-based solutions are becoming sustainable growth drivers for our business.

By providing balanced services — large and small — to a wide variety of customers, we are strengthening our business foundation and broadening our service offerings to society.

Looking at our growth strategy, our focus from the second half of 2024 through 2025 will be on aggressively expanding profit margins and strengthening our technology and business model resilience. This aligns with the direction we announced at the time of our second-quarter results.

This strategy is built around three core initiatives.

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First, we aim to scale our proprietary AI services. Rather than overinvesting and damaging profitability, we plan to allocate part of the profits we generate toward investment, thereby achieving sustainable profitability and growth.

Second, we intend to shift toward more recurring revenue models. For example, we are actively expanding our SaaS business, including *KizunaNavi*, which is a 1-on-1 support tool for human capital management. By offering such services, we will not only deliver our AI technologies to a broader range of sectors, but also build a stable and ongoing high-margin revenue structure.

Third, on the technology front, we will continue advancing cutting-edge AI technology, especially in the video domain, which has been our core focus since our founding. In particular, for generative AI, we plan to continue research and development while actively leveraging both our proprietary AI and widely adopted technologies in the market.

Regarding profitability, we have continued optimizing costs, a process that began last year. In the third quarter, as expected at the beginning of the fiscal year, we achieved quarterly operating profit. This result was not only due to increased sales, but also thanks to the simultaneous improvement in SG&A efficiency.

By increasing revenue while reducing costs — two seemingly conflicting efforts — we successfully returned to quarterly profitability.

At the same time, our EBITDA has turned positive on a cumulative basis for the first to third quarters. This means that, from the beginning of fiscal 2024 through the third quarter, our operating cash flow has also moved into positive territory.

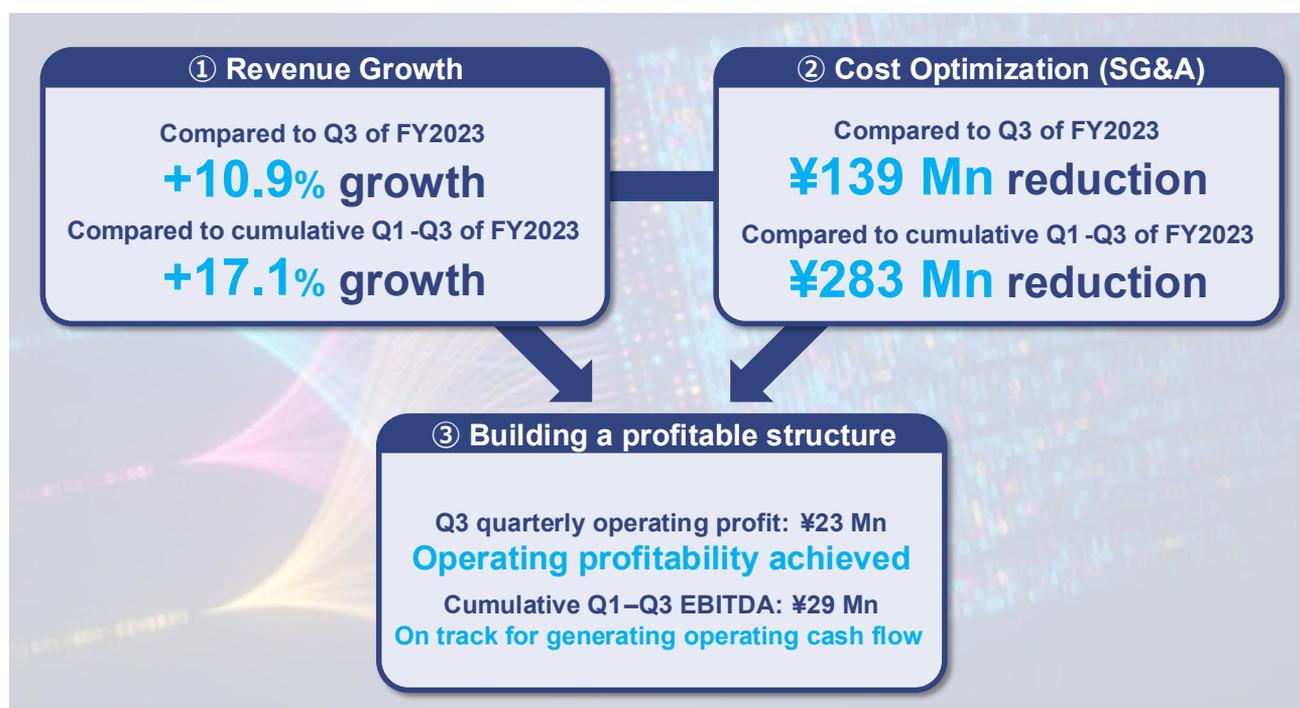
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Financial highlights for the Q3 ended September 30, 2024



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Now, I would like to briefly review the details.

Revenue growth in the third quarter was 10.9% year-on-year. On a cumulative basis, from the first through the third quarter, sales increased by 17.1% compared to the same period last year.

In terms of costs, we achieved significant efficiency improvements. Selling, general and administrative expenses were reduced by 139 million yen compared to the third quarter of the previous year, and by 283 million yen on a cumulative basis from the first through the third quarter.

As a result, operating profit for the third quarter reached 23 million yen.

Cumulatively, EBITDA for the first through the third quarter amounted to 29 million yen, and we believe this indicates that we are on track to consistently generate operating cash flow.

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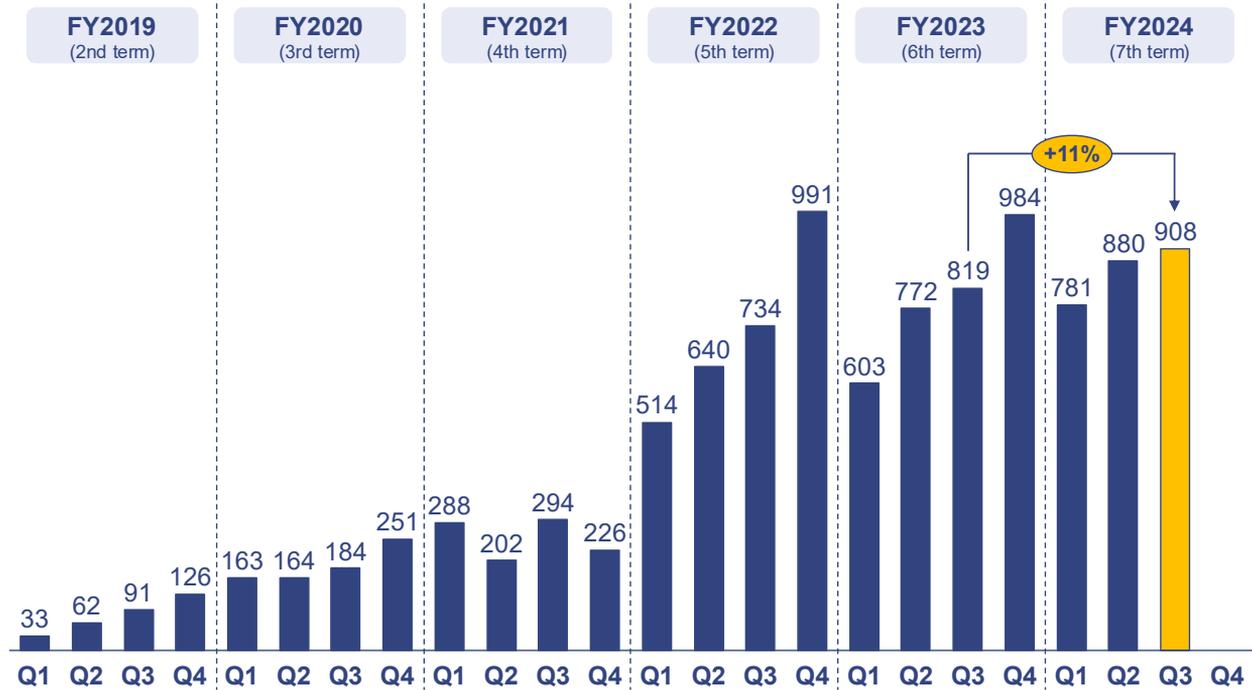
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① Revenue Growth



Quarterly revenue

(JPY Millions)



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This shows the trend in quarterly revenue, which continues to demonstrate steady growth.

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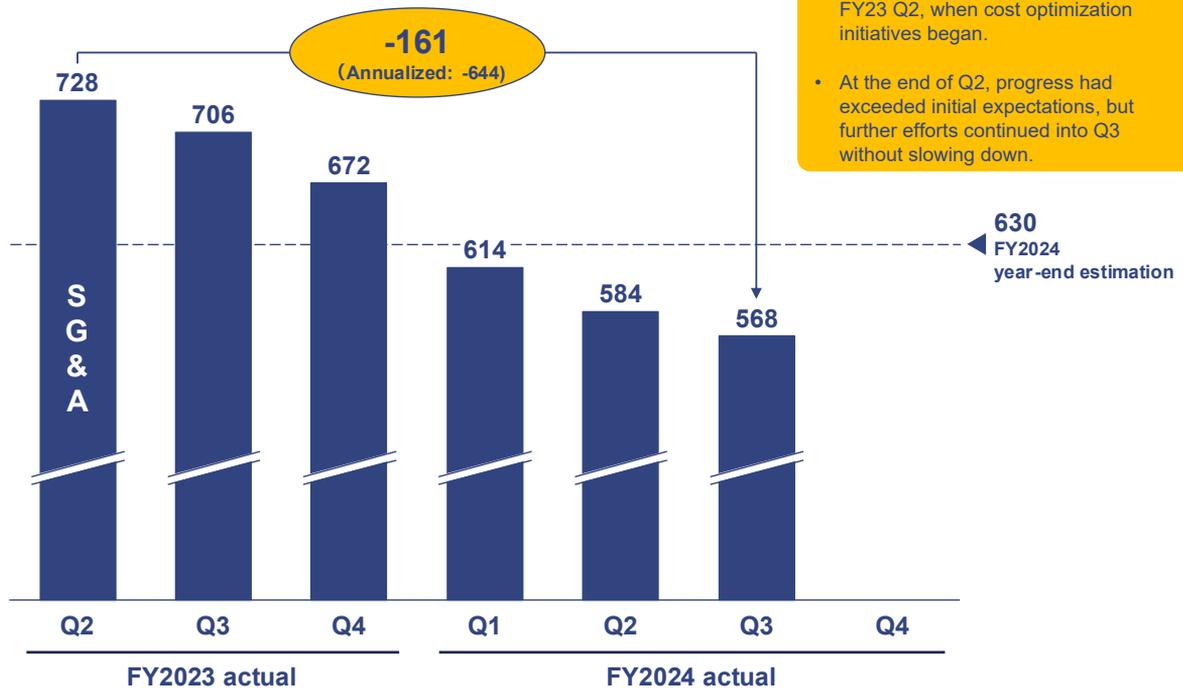


② Cost Optimization (SG&A)



Quarterly SG&A cost

(JPY Millions)



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

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This slide shows our selling and administrative expenses. Since the third quarter of last year, we have been reviewing and optimizing our costs. About a year and a half has passed since we began this initiative.

Taking the second quarter of last year — before the start of our cost optimization efforts — as the baseline, we have successfully reduced selling and administrative expenses by approximately 161 million yen per quarter.

On an annualized basis, this equates to an improvement of about 640 million yen in operating profit, delivering a significant positive impact.

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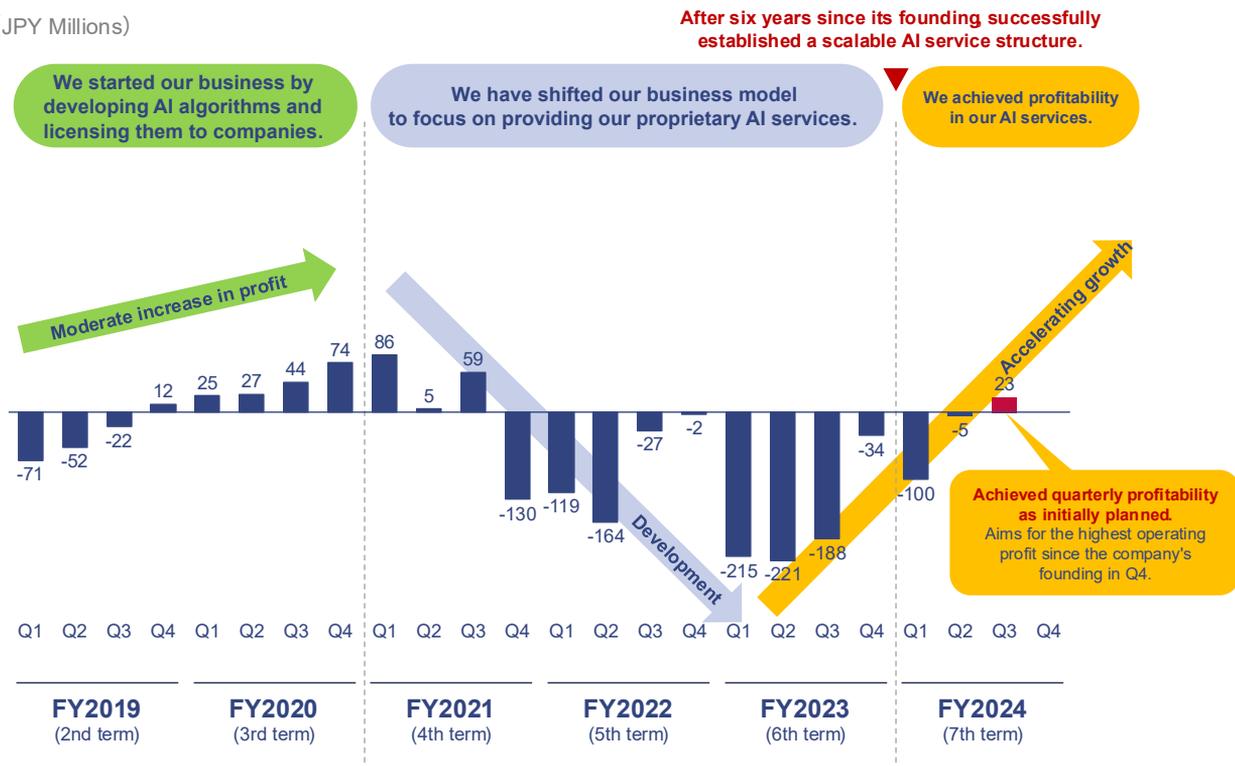


③ Building a profitable structure



Evolution of our business models and quarterly operating profit performance.

(JPY Millions)



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This slide reflects on our efforts over the past three years to transform our business and secure profitability.

In our second and third fiscal years, our focus was on fee-based services, primarily selling basic AI licenses. However, we later made a major strategic shift toward offering edge AI and smart city services. To support this transition, we actively invested in both our sales and technical capabilities.

The impact of this shift began to surface around the second quarter of our sixth fiscal year, which was last year. From the third quarter onward, we started implementing cost optimization measures. In other words, we began building a structure that would enable us to deliver larger-scale services with lower costs.

This year, in line with our expectations, we achieved increased profitability in the first, second, and third quarters, and successfully returned to profitability from the third quarter onward, just as planned at the beginning of the fiscal year.

Looking ahead, we also expect to generate profits in the fourth quarter, as projected.

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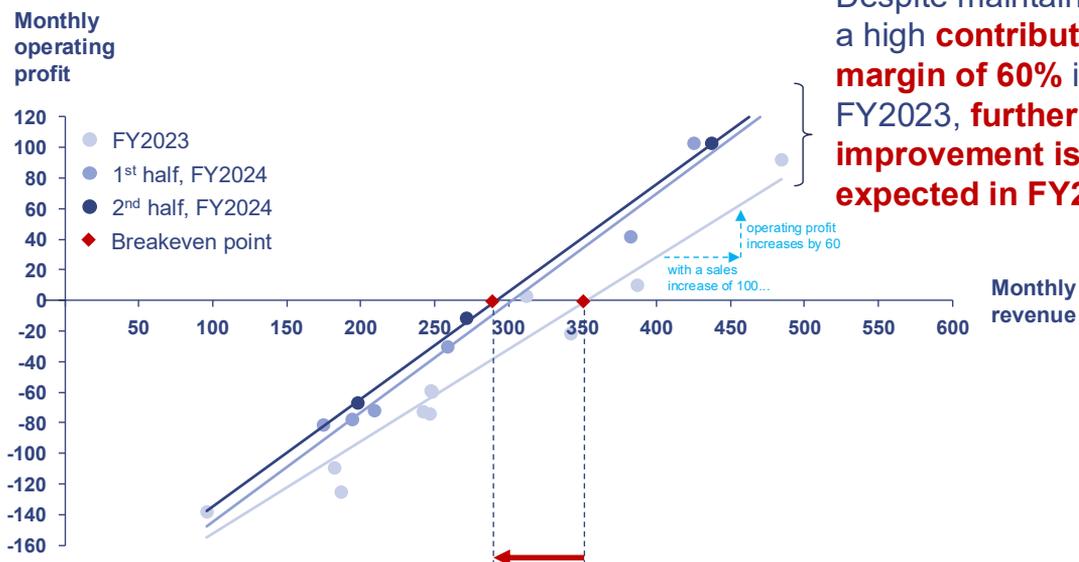


③ Building a profitable structure



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

(JPY Millions)



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

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

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This slide provides an analysis of our profitability. As we have discussed in more detail since this fiscal year, this focuses on our contribution margin and break-even point. In this chart, the horizontal axis represents monthly sales, while the vertical axis represents monthly operating profit. Essentially, this analyzes how much profit increases when monthly sales increase — in other words, the contribution margin.

The slope of the line on this graph represents the contribution margin. The light blue dotted line shown here is an example that illustrates how much operating profit increases when sales rise by 100 units.

Initially, our contribution margin was around 60%, but it has since strengthened slightly above that level. The point where the graph intersects with the horizontal axis indicates our break-even point.

Last year, our monthly break-even point was approximately 350 million yen, meaning we needed to exceed this amount in monthly sales before generating profit. However, this year, the break-even point has fallen below 300 million yen, meaning we can now turn a profit with lower sales.

In addition to this lowering of the break-even point, profitability beyond the break-even level has also improved. That is, the responsiveness of profits to additional sales has become higher.

In summary, we have successfully established a service delivery structure that makes it easier to generate profits.

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

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

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This summarizes the results for the third quarter. Revenue reached 908 million yen, and gross profit was 591 million yen, resulting in a gross margin of 65.1%.

While part of our business involves procuring edge devices and display equipment from overseas suppliers such as NVIDIA — meaning we are somewhat affected by foreign exchange fluctuations — the yen weakened compared to the same period last year, creating a headwind.

Nevertheless, through ongoing efforts such as revising the pricing of our services and negotiating with suppliers, we were able to improve our gross margin by about 2 percentage points year-on-year.

Additionally, EBITDA came to 60 million yen and operating profit reached 23 million yen. As a result, all key lines on the P&L showed positive figures, and we achieved both increased revenue and increased profit.

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Consolidated financial results for the cumulative Q1-Q3, 2024
– All metrics improved significantly year-on-year, with cumulative EBITDA also turning positive.

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

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This shows the cumulative results from the first through the third quarters. Compared to the cumulative figures at the same point last year, we achieved significant increases in both revenue and profit.

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Consolidated full-year financial estimate for FY2024

Progressing smoothly	FY2023 Actual	FY2024 Estimate	Increase/ Decrease	Change in Percentage
(JPY Millions)				
Revenue	3,178	3,700	+522	+16.4%
Gross profit Percentage of revenue	2,063 64.9%	2,550 68.9%	+487	+23.6%
EBITDA Percentage of revenue	-490 -	180 4.9%	+670	-
Operating profit Percentage of revenue	-658 -	30 0.8%	+689	-
Ordinary income Percentage of revenue	-686 -	0 -	+687	-
Net income Percentage of revenue	-650 -	-120 -	+530	-

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This shows the full-year budget forecast that we announced at the beginning of this year, and progress so far has been on track.

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

Quote from the “FY23 Financial Results Briefing Materials”



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These are the key financial targets for 2024, which were announced at the beginning of the year in our full-year forecast. As of the third quarter, we have already achieved target B, which was to return to positive quarterly operating profit. Targets A, C, and D will be updated and announced at the time of our full-year results, but progress on all of them is also proceeding smoothly.

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Our growth strategy

Revenue expansion

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

Business model evolution

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

AI technology exploration

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



Finally, to summarize, our strategy remains focused on three pillars: expanding revenue, strengthening our revenue model, and continuing the development of advanced AI technologies.

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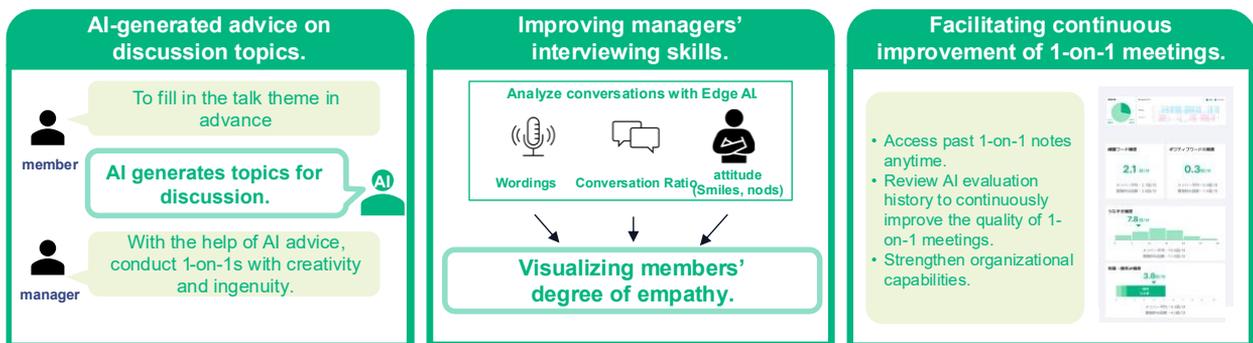
Released a 1-on-1 support service to improve employee work comfort and accelerate their growth.

1-on-1 support services

KizunaNavi

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

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



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Regarding our services, I would like to briefly touch on *KizunaNavi*, which we are jointly developing with Sony, following my earlier remarks on strengthening our SaaS revenue base.

KizunaNavi is a 1-on-1 support service launched in response to the growing focus on human capital management and related societal needs. Simply put, 1-on-1 refers to regular meetings between supervisors and their subordinates, and this service enables such interactions to be conducted via a SaaS platform.

The number of companies adopting the service has been increasing, and it offers three key features as outlined below.

First, before the meeting, either the manager or team member can input discussion topics in advance. Based on these inputs, generative AI suggests advice and talking points to help guide the conversation.

Second, during the meeting itself, the service uses the computer's CPU to control the webcam and analyze various elements, such as speech content, smiles, and facial expressions. This allows the system to assess factors like empathy and productivity throughout the discussion.

Third, based on this analysis, the service provides users with feedback in the form of reports after the meeting, summarizing key insights and observations.

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

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



➢ KizunaNavi dedicated website (©JMAM)



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



Service update under the supervision of expert organizations



Accelerate service expansion through the start of agency sales

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This initiative was announced in a press release earlier this fiscal year. By forming a partnership with Japan Management Association Management Center (JMA Management Center), we are now able to offer our service alongside their organizational development initiatives.

This creates opportunities for cross-selling, allowing us to jointly provide solutions to strengthen organizations. Through such partnerships, we are steadily expanding the reach of our service.

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Employee dissatisfaction with the workplace.

Workplace Dissatisfaction Ranking — Survey of 500 Men and Women —

Dissatisfaction with the Workplace
(Unit: People)

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

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

Changes in employee work ethic.

young employees

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

mid-level employees

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

1-on-1 communication is becoming increasingly important.

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

I would also like to explain the background behind the development of *KizunaNavi*.

This is based on the results of a survey on why employees feel dissatisfied at their workplaces. According to the survey, dissatisfaction generally falls into three main categories.

The first is poor human relationships and a negative workplace atmosphere.

The second is low income. Of course, this may be due to structural limitations within the company's compensation system. However, a significant underlying issue is insufficient communication with managers, which prevents employees from fully demonstrating their capabilities. As a result, they are not properly evaluated, leading to lower income. This issue cannot simply be resolved by increasing salaries — it stems from deeper challenges in communication, such as not fully bringing out individual abilities or failing to assign the right person to the right job.

The third issue relates to dissatisfaction with working hours and holidays. Long working hours and a lack of work-life balance are often rooted in communication problems as well.

In addition, working styles have changed significantly in recent years, particularly under the influence of COVID-19. Younger employees, in particular, no longer expect lifelong employment at a single company. According to a survey by Persol, many now prioritize environments where they can grow personally or work more freely.

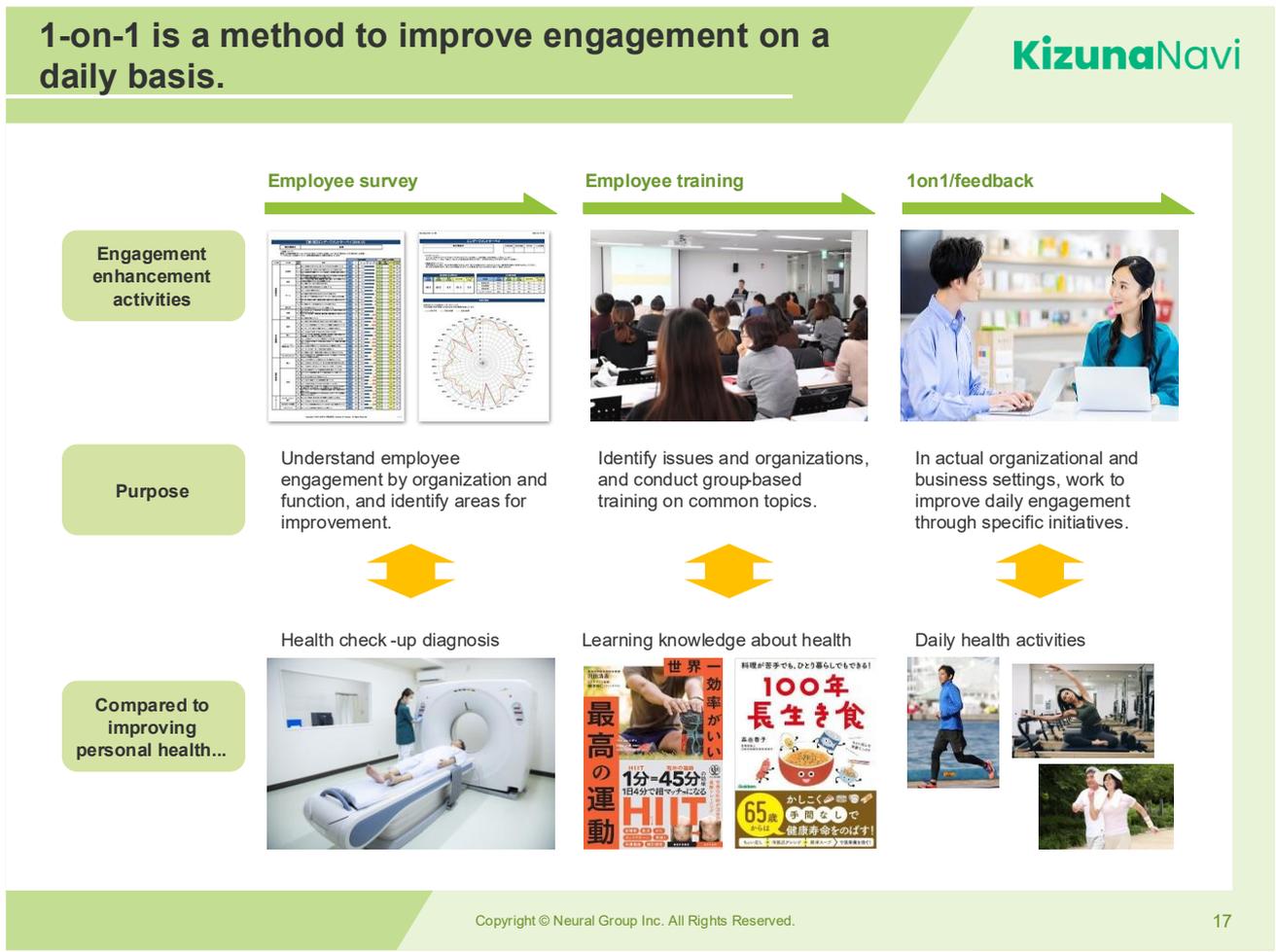
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Mid-career hires are also increasing, not only in startups but even in large, established companies such as mega-banks. These companies are actively strengthening mid-career recruitment, and reskilling has become an important requirement in core industries such as finance and heavy industries.

Given this background, it has become increasingly important to offer working styles tailored to each individual's situation. To make this possible, the necessity of 1-on-1 meetings as a communication tool has gained considerable attention.



KizunaNavi, which began service this year, is a core part of our strategy heading into next year, where one of our key themes is enhancing employee engagement.

One effective way to achieve this, already widely adopted by many companies, is through employee surveys. These are highly useful and can be likened to medical checkups or health screenings in personal health management — diagnostic tools to assess the current state of well-being.

After surveys, the next step within organizations is typically employee training. This stage helps employees recognize and identify issues, and work together to learn solutions. This phase is similar to reading books about health to gain knowledge.

Naturally, both surveying and training are important. However, the next step — putting what has been learned into practice within the workplace — is even more crucial. At this point, daily communication between managers and employees, and among colleagues, plays a key role.

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This can be compared to regular physical activities like running, Pilates, or walking in the context of health. Without this final step of continuous improvement, no amount of checkups or studying will lead to better health.

In the same way, within organizations, sustained and meaningful communication is essential for true improvement. That is exactly where *KizunaNavi* comes in — our service is designed to support this final and most practical step by facilitating effective 1-on-1 meetings.

Conversely, Japan Management Association Management Center focuses on the middle layer by providing training, and we are also collaborating with SaaS companies that offer employee survey solutions (the first step). Through these partnerships, we aim to offer *KizunaNavi* as part of a more comprehensive, integrated suite of solutions that address every stage of organizational development.

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



Typical 1-on-1

Main actor

- **Managers** play the leading role.

Purpose

- **Conveying** performance evaluations and work-related matters.

Frequency

- Once or twice a year.



Ideal 1-on-1

- **Members** play the leading role.
Managers ideally spend 60–70% of the time listening, with advice kept concise and focused.

- **Advising** on balancing career development and personal matters.

- **Regularly**, such as once a month, on a continuous basis.

In the United States and Europe, 1-on-1 meetings are a common and well-established practice. However, in Japan, there is still a strong tendency to associate them with top-down personnel evaluation meetings — where managers or senior executives talk and subordinates listen — often held only once or twice a year.

But true 1-on-1s are fundamentally different. As I mentioned earlier, they should be thought of more like regular activities that maintain health — such as daily running or taking supplements. Ideally, they are conducted regularly, such as once a month, where more experienced members listen to younger or newer members, offer advice, help them work through concerns, and provide career guidance, such as suggesting a move to a different department if that would support their growth.

We believe that this is the true purpose and vision of 1-on-1 meetings.

Our mission with *KizunaNavi* is to promote and deliver these better, more meaningful 1-on-1s throughout society.

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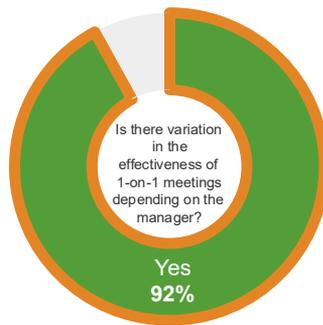
Three Challenges in achieving effective 1-on-1 meetings

Challenges for Members



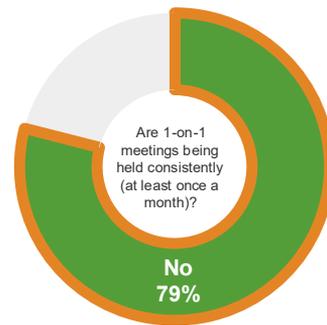
Advance preparation of topics to discuss is necessary.

Challenges for Managers



Enhancement of advising skills is necessary.

Challenges in Continuity



A mechanism for continuous implementation is necessary.

Behind this situation is the fact that, compared to the West, many companies in Japan historically have little or no experience with 1-on-1 meetings.

Although the number of companies implementing 1-on-1s has increased in recent years, we believe there are still three major challenges.

First, younger members often have little experience with 1-on-1s and tend to join these meetings without proper preparation.

Second, managers themselves often have not been trained in this kind of culture during their own careers. As a result, they face the difficult task of teaching and facilitating something they were never taught. This leads to wide variation in the quality of advice and communication depending on the manager.

Third, it remains difficult to establish 1-on-1s as a regular practice. Without forming a solid habit, people tend to forget or skip scheduled meetings, which eventually leads to them being discontinued.

KizunaNavi was designed specifically to help address and support companies in overcoming these three fundamental challenges.

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

Question from member	I am aiming for a raise this year, and I would like to mentor subordinates next year. Could you tell me if there are any achievements I am currently lacking?	Suggested question/advice <ul style="list-style-type: none">• "To aim for a raise this year, let's start by setting specific goals. For example, let's think together about strategies to achieve sales targets."• "If you want to be considered for a promotion next year, taking leadership training or management skill training would be a good idea. It will help strengthen both your achievements and skills."• "Regarding your current lack of achievements, gaining experience as a project leader or in a similar role would be effective. Try taking the initiative to lead a small team and demonstrate your leadership."
Question from member	I want to launch a new business next year, lead it myself, and achieve results within two years. Please give me suggestions on this.	Suggested question/advice <ul style="list-style-type: none">• "What kind of business are you specifically thinking of launching? Please tell me about its background and purpose."• "What resources and support do you feel are necessary when launching the business?"• "As a leader, how do you plan to guide and manage your team? Please explain your approach and specific methods."
Question from member	Every Friday morning, I take my child to kindergarten and pick them up in the evening, so I want to work flexibly.	Suggested question/advice <ul style="list-style-type: none">• "In line with your Friday schedule, what kind of work adjustments do you think are necessary?"• "To make Friday's work more flexible, are you making any adjustments on other days?"• "What specific support do you need to balance your responsibilities? How do you think we can best accommodate your Friday schedule?"

In KizunaNavi, AI automatically generates questions and example advice.

Here is an example of KizunaNavi's features.

Suppose a team member wants to discuss the following topics during their regular 1-on-1 meeting: 'I am aiming for a raise this year and would like to take on mentoring responsibilities next year. Please let me know if there are any skills I should develop.'

In such cases, KizunaNavi presents suggested questions and advice to the manager, displayed in green.

For example, it might propose questions like, 'Shall we set specific goals to help you aim for that raise this year?' or 'Would you like to think through a sales target strategy together?'

Additionally, since the team member is also considering mentoring others next year, the system might suggest advice such as, 'It could be a good idea to take leadership or management training.'

In this way, KizunaNavi offers managers practical examples of questions and advice to help them better engage in meaningful and supportive 1-on-1 discussions.

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



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

In addition to features that allow team members to submit discussion topics in advance and help managers offer relevant advice, *KizunaNavi* also provides feedback to managers on how the actual 1-on-1 meetings went.

Using the computer's camera, the system captures participants' facial expressions during the meeting and generates a report that visualizes data, such as whether the team member was nodding or smiling while the manager was speaking.

Other key features include scheduling and tracking the status of 1-on-1 meetings. For example, if a manager supervises 20 team members, the system can show that they have not recently spoken with 10 of them, making it easy to identify and address communication gaps.

These are the core functions and services that *KizunaNavi* provides.

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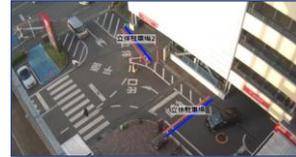
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Providing services for smart city development using AI cameras.  Digi Park

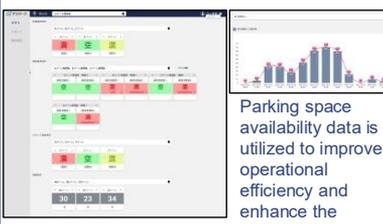


For outdoor flat parking lots, a single camera can capture over 100 parking spaces.



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

1 Real-time availability management system for facility managers.



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

2 Linking data to the facility website.



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

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



Real-time on-site traffic control.

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Other services include *DigiPark*, our parking system, which we have been actively promoting for some time. This solution is increasingly being adopted in both public and private sectors.

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



NeuralVision

- **Unparalleled installation track record**
Experience in a wide variety of industries, including large corps, government offices, commercial facilities, and merchant stores.
- **Unparalleled track record of stable operations**
Stable operating track record throughout Japan, including cold, hot, and humid regions.
- **Flexible contract forms**
Flexible purchase formats such as lease agreements and credit/cash purchases.



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Next is *NeuralVision*, which integrates generative AI content into LED displays. This solution has also been widely adopted across various sectors, including sports, government agencies, and small retail shops. To date, we have expanded our customer network to approximately 12,000 locations.

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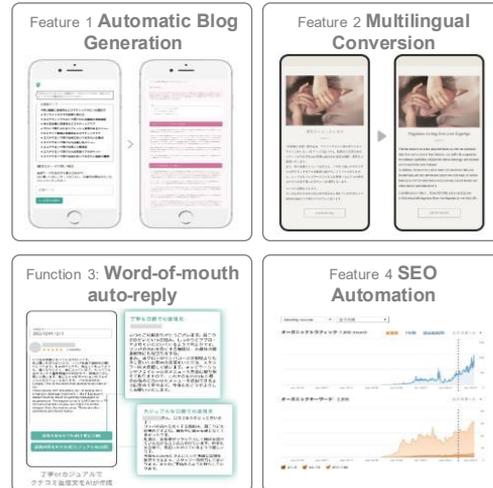
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Expanding AI-driven web businesses with ChatGPT.

Generative Web powered by ChatGPT



Generative Web
powered by ChatGPT



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

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This is our generative web service, which uses ChatGPT to automatically translate web content into multiple languages, generate blog posts, and respond to user inquiries, among other automated web functionalities.

We have been leveraging the technologies we have built over time to offer this service, and our ability to sell such solutions more efficiently has contributed to our turnaround.

As a result, in the third quarter, we successfully returned to profitability for the first time in three years.

That concludes my presentation. We will continue working hard to bring you more positive updates in the fourth quarter.

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Question & Answer

Moderator [M]: We will now move on to the Q&A session. Our CEO, Mr. Shigematsu, and CFO, Mr. Kisaka, will be answering your questions.

If you have a question, please click the 'Raise Hand' button on Zoom, and we will call on you in order.

Now, Mr. Iwamoto, please go ahead.

Iwamoto [Q]:

Thank you for your presentation. This is Iwamoto from TIW. I have two questions.

The first is about costs. When I look at the results for Q3 alone, I get the impression that the cost of sales ratio and SG&A ratio have become considerably leaner. From the perspective of forecasting costs for next year and beyond, should we consider this level to be sustainable? In other words, is this now a normalized level, or were there temporary factors in Q3 that helped push costs down?

The second question concerns revenue growth drivers for next year. Which services do you expect to lead growth, and could you also comment on the competitive landscape for your main AI services?

Shigematsu [A]:

Thank you. Regarding Q3, we see this as part of our ongoing efforts. In fact, we expect SG&A expenses to decrease slightly further in Q4. Looking ahead, this current level is likely the bottom line from which we will scale sustainably, so we do not foresee significant reductions next fiscal year.

As for revenue, we believe Q4 will be even stronger than Q3. If you subtract Q3 performance from our full-year forecast, you can get a rough idea of the expected level of profits. Given this outlook, our current SG&A level should be sufficient.

On gross profit, since our pricing already reflects the current exchange rate, we do not expect further negative impact. Pricing adjustments and market stabilization have led our business into a very stable phase. In fact, Q3 included some temporary costs, such as inventory adjustments, so we believe profitability under normal conditions is actually slightly higher. The Q4 results should provide a clearer picture of our true earnings power.

The cost reductions come from careful streamlining — cutting unnecessary development, sales activities, and outsourced work. We have implemented hundreds of micro-initiatives over the past year, which together have brought us to this level.

For your second question about core services next year, our sales focus will remain balanced across several key areas:

First, our "Digi Solutions" — including DigiPark, DigiThrough, and DigiFlow.

Second, NeuralVision, which is already a large revenue contributor.

Third, our generative web services, which are currently growing strongly.

Together, these three account for most of our revenue.

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KizunaNavi, as a SaaS business, will ramp up gradually, and by the end of next year we expect it to become a meaningful contributor.

Conversely, lower priority businesses include AI MD (fashion-related AI services) and media advertising for luxury apartments.

As for competition, in reality, these markets are still so new that competition is limited. Rather than fighting over market share, we are working in areas with wide open space and focusing on how we can establish leadership in each domain.

Iwamoto [M]:

Thank you very much.

Moderator [M]:

Thank you. Next, Mr. Suzuki, please go ahead.

Suzuki [M]:

I'm Suzuki from Capital Eye. I have one question. Regarding KizunaNavi, as it will be rolled out as a SaaS product, will the version provided be exactly the same as it is now, or will it be simplified to make it more accessible? Also, as the number of users grows, data will accumulate significantly. Could you tell us about your plans for utilizing this data?

Shigematsu [A]:

Thank you. Regarding KizunaNavi, it already includes the core necessary features, so we do not anticipate major custom development for each client. However, there may be some adjustments required, such as meeting stricter security standards for certain clients, like government agencies.

Fundamentally, 1-on-1 communication in Japan does not yet have a standardized format, so we believe that offering KizunaNavi as a standardized solution will help companies adopt best practices.

Unlike traditional SaaS offerings for mature business operations — such as payroll systems that must adapt to each company's long-established practices — KizunaNavi's role is to set the standard itself.

As for data accumulation, our background in edge AI gives us an advantage. For example, when facial expressions are analyzed during a meeting, the data is processed locally on the user's computer. The results — whether the person smiled or nodded — are saved only as lightweight metadata. This eliminates the need to store large video files, so data storage costs remain minimal, which supports strong gross margins.

Regarding future use of the data, KizunaNavi stores notes from 1-on-1 meetings, which help both managers and team members refer back to past discussions. This naturally increases switching costs and user retention.

In addition, we believe there is great potential in analyzing this data. Recently, personality analysis models like "16Personalities" have become popular among younger generations. By combining this type of personality analysis with KizunaNavi, we could provide even more tailored coaching suggestions based on employee personality types — for example, whether to give more specific instructions or encourage independent thinking.

This is a function we plan to add in the future.

Suzuki [M]:

Thank you — very insightful.

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Moderator [M]:

Thank you. Any other questions? If not, Iwamoto-san, please go ahead again.

Iwamoto [Q]:

One more question, this time about SG&A and human resources. There is growing industry talk about cost pressures for securing talent. How do you view labor costs going forward, particularly with respect to service expansion?

Shigematsu [A]:

Thank you. We are aware of the wage increase trend driven by government policy and have already been raising employee salaries accordingly. Next year's budget also includes further wage increases.

However, one of the advantages of our business model is that revenue growth does not require us to massively increase headcount. For example, SaaS businesses like KizunaNavi can be scaled up through partnerships with distributors. Likewise, with DigiPark, while some increase in personnel will be necessary as sales grow, it will not be dramatic.

Since labor costs are the product of headcount and unit labor cost, and we expect headcount growth to be limited, the overall impact on our consolidated P&L will also be modest.

Iwamoto [Q]:

I see. So, even as you expand your service offerings, especially development, you don't expect major increases in personnel costs.

Shigematsu [A]:

That's correct.

Iwamoto [M]:

Got it — thank you very much.

Moderator [M]: Thank you very much. Are there any further questions? As there are no additional questions, this concludes the Q&A session. Thank you again for attending Neural Group's FY2024 Q3 Financial Results Briefing. This concludes today's event.

[END]

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1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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