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Financial Results for the Fiscal Year Ended December 31, 2021 [Japanese GAAP]

Company name:	Neural Pocket Inc.
Stock exchange listing:	Tokyo
Code:	4056
URL:	https://www.neuralpocket.com/en/index.html
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Scheduled date of ordinary general meeting of shareholders:	March 30, 2022
Schedule date of filing annual securities report:	March 31, 2022
Schedule date to commence dividend payment:	—
Preparation of supplementary materials on financial results:	Yes
Schedule of annual financial result briefing session:	Yes (for institutional investors and analysts)

1. Consolidated financial results for the fiscal year ended December 31, 2021

(January 1, 2021 - December 31, 2021)

(1) Consolidated operating results (% denotes year-to-year increase/decrease rate)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended								
December 31, 2021	1,010	-	20	-	13	-	11	-
December 31, 2020	-	-	-	-	-	-	-	-

Notes Comprehensive profit Fiscal year ended December 31, 2021 11 million yen (-%) Fiscal year ended December 31, 2020 -million yen (-%)

	Net profit per share	Diluted net profit per share	Return on shareholders' equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended					
December 31, 2021	0.79	0.76	0.9	0.6	2.0
December 31, 2020	-	-	-	-	-

Notes

Since the Company has been preparing consolidated financial statements since the fiscal year ended December 31, 2021, the figures for the fiscal year ended December 31, 2020, the percentage change from the previous fiscal year, and the percentage change from the previous fiscal year for the fiscal year ended December 31, 2021 are not shown. The "Return on shareholders' equity" and the "Ordinary profit to total assets" for the fiscal year ended December 31, 2021 are calculated based on total shareholders' equity at the end of the fiscal year, as this is the first year of consolidation.

(2) Consolidated financial condition

	Total assets	Net assets	Equity capital ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of				
December 31, 2021	2,419	1,322	54.1	91.59
December 31, 2020	-	-	-	-

Reference Equity capital As of December 31, 2021 1,309 million yen As of December 31, 2020 -million yen

Notes

As the Company has been preparing consolidated financial statements since the fiscal year ended December 31, 2021, figures for the fiscal year ended December 31, 2020 are not provided.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Yen
December 31, 2021	(0)	(494)	496	1,425
December 31, 2020	-	-	-	-

Notes

As the Company has been preparing consolidated financial statements since the fiscal year ended December 31, 2021, figures for the fiscal year ended December 31, 2020 are not provided.

2. Dividend situation

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1Q	2Q	3Q	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
December 31, 2020	-	0.00	-	0.00	0.00	-	-	-
December 31, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 31, 2022 (expected)	-	0.00	-	0.00	0.00		-	

Notes

Since the Company has been preparing consolidated financial statements since the fiscal year ended December 31, 2021, the "Payout ratio" and the "Dividends to net assets" for the fiscal year ended December 31, 2020 are not stated. The ratio of dividends to net assets for the fiscal year ended December 31, 2021 is calculated based on the net assets per share for the fiscal year ended December 31, 2021 because it is the first year of consolidation.

2. Consolidated financial results forecast for the Fiscal Year Ending December 31, 2022

(January 1, 2022 - December 31, 2022)

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

	Net sales		Operating profit		Ordinary profit		Net profit		Profit attributable to owners of parent
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full term	1,800	78.2	20	(0.9)	5	(63.4)	2	(82.3)	0.13

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation)

Yes

Newly joined to the group 2 companies Focus Channel Inc.
Neural Engineering Inc.

Excluded from the group None -

(2) Accounting policy changes, accounting-based estimate changes, revision-based restatements

- Accounting policy changes due to revision of accounting standards : None
- Accounting policy changes other than (1) above : None
- Changes in accounting-based estimates : None
- Revision-based restatements : None

(3) Total number of issued shares (common shares)

1. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2021: 14,296,200 shares

As of December 31, 2020: 14,013,200 shares

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

As of December 31, 2021: 86 shares

As of December 31, 2020: 32 shares

3. Average number of shares during the period

Fiscal year ended December 31, 2021:	14,185,227 shares
Fiscal year ended December 31, 2020:	13,587,639 shares

- * Financial results reports are exempt from audit conducted by certified public accountants or audit firms.
- * Proper use of financial results forecasts, and other special matters

(Note to forecasts on the results of operations and other items)

Forward-looking statements, including the forecasts stated in these materials, are estimated based on the information that the Company is able to obtain at the present point in time and assumptions which are deemed to be reasonable. However, actual results may be different due to various factors.

○ Contents of appended materials

1. Qualitative information regarding results for the period	.....2
(1) Explanation of operating results	.....2
(2) Explanation of financial position	.....2
(3) Explanation of cash flows for the current fiscal year	.....2
(4) Outlook for the future	.....2
2. Basic approach to the selection of accounting standards	.....3
3. Financial statements and principal notes	.....4
(1) Consolidated balance sheet	.....4
(2) Consolidated statement of income and consolidated statement of comprehensive income	.....6
(3) Consolidated statement of changes in equity	.....8
(4) Consolidated statement of cash flows	.....9
(5) Notes to the consolidated financial statements	.....10
(Notes on going concern assumptions)	.....10
(Segment information)	.....10
(Per share information)	.....10
(Significant events after reporting period)	.....10

1. Qualitative information regarding results for the period

(1) Explanation of operating results

Our company's mission is "Update the world for a better tomorrow". Our group aims to solve social issues through the digitization of real spaces. Our business consists of three service domains: AI Media Service, Digi Solutions Service, and Lifestyle Service.

In the AI Media Service domain, we provide advertising services using the digital signage domain as the medium, and in November 2021, we made Focus Channel Inc. a subsidiary that operates a signage advertising business for condominiums.

In the Digi-Solutions Service domain, we provide "Digi-Park," which enables efficient operation of parking lots and truck berths at logistics facilities using AI cameras, "Digi-Flow," which can be used for analyzing the flow of people in the city and for crime prevention and security, and "Remo Desk," a telecommuting support tool.

The Lifestyle Services domain consists of AIMD, a fashion trend analysis service for apparel industry.

As a result of the above, net sales for the consolidated fiscal year were 1,010,186 thousand yen, operating profit was 20,181 thousand yen, ordinary profit was 13,650 thousand yen, and net profit attributable to owners of the parent was 11,267 thousand yen.

As the Company's business segment is the single segment of AI engineering business, the description by segment is omitted.

For more detailed financial results, please refer to the "Financial Results Briefing Material FY2021 (ended Dec 31, 2021)" released on February 10, 2022 from our IR website.

Reference URL: <https://www.neuralpocket.com/ir/library/>

(2) Explanation of financial position

Assets

Current assets at the end of the consolidated fiscal year totaled 1,758,671 thousand yen. This mainly consisted of cash and deposits of 1,425,990 thousand yen and accounts receivable – trade of 190,536 thousand yen. Total assets amounted to 2,419,800 thousand yen.

Liabilities

Current liabilities at the end of the consolidated fiscal year totaled 989,086 thousand yen. This was mainly due to short-term loans payable of 850,000 thousand yen. Total liabilities amounted to 1,097,066 thousand yen.

Net assets

Total net assets as of the end of the consolidated fiscal year were 1,322,734 thousand yen.

(3) Explanation of cash flows for the current fiscal year

The balance of cash and cash equivalents (hereinafter referred to as "cash") at the end of the consolidated fiscal year was 1,425,990 thousand yen.

Net cash provided by (used in) operating activities

As a result of operating activities in the consolidated fiscal year, funds used amounted to 788 thousand yen. This was mainly due to depreciation expenses of 85,507 thousand yen and an increase in inventories of 81,562 thousand yen.

Net cash provided by (used in) investing activities

As a result of investment activities in the consolidated fiscal year, funds used amounted to 494,585 thousand yen. The main outflows were 227,580 thousand yen for the acquisition of shares of subsidiary resulting in changes in the scope of consolidation, and 158,228 thousand yen for the acquisition of tangible fixed assets.

Net cash provided by (used in) financing activities

Net cash provided by financing activities in the consolidated fiscal year was 496,553 thousand yen. This was mainly due to proceeds from share issuance of 91,999 thousand yen and a net increase in short-term loans payable of 400,000 thousand yen.

(4) Outlook for the future

As for the future outlook, the economy was beginning to show signs of recovery as the severe situation caused by the new coronavirus infection gradually eased, but we believe that it is necessary to closely monitor the impact of the outbreak of mutated strains on the domestic and overseas economy and fluctuations in the financial and capital markets. The Group believes that by promoting three different service domains in a well-balanced manner, it will be able to flexibly respond to rapid social transformation.

We expect that demand for services that support the new social environment will grow as digital transformation accelerates, and we will continue to flexibly respond to such market changes and promote our business activities.

Based on this outlook for the business environment, we forecast net sales of 1,800,000 thousand yen, operating profit of 20,000 thousand yen, ordinary profit of 5,000 thousand yen, and net profit of 2,000 thousand yen for December 2022.

2. Basic approach to the selection of accounting standards

In order to ensure comparability of financial statements from period to period and from company to company, the Company has adopted Japanese GAAP for accounting standards.

3. Financial statements and principal notes

(1) Consolidated balance sheet

(Thousands of yen)

As of December 31, 2021

Assets	
Current Assets	
Cash and deposits	1,425,990
Accounts receivable - trade	190,536
Merchandise	120,965
Others	21,179
Total current assets	1,758,671
Non-current assets	
Property, plant and equipment	
Buildings	38,653
Tools, furniture and fixtures	209,400
Accumulated depreciation	(36,102)
Total property, plant and equipment	211,951
Intangible assets	
Software	130,360
Software in process	8,202
Goodwill	228,599
Total intangible assets	367,162
Investments and other assets	
Leasehold and guarantee deposits	82,015
Total investments and other assets	82,015
Total non-current assets	661,128
Total assets	2,419,800

(Thousands of yen)

As of December 31, 2021

Liabilities	
Current liabilities	
Account payable-trade	17,901
Income taxes payable	2,382
Short-term borrowing	850,000
Current portion of long-term borrowings	3,420
Other	115,382
Total current liabilities	989,086
Non-current liabilities	
Long-term borrowings	107,980
Total non-current borrowings	107,980
Total liabilities	1,097,066
Net assets	
Shareholders' equity	
Share capital	64,546
Capital surplus	1,408,723
Retained earnings	(163,388)
Treasury shares	(441)
Total shareholders' equity	1,309,439
Share acquisition rights	13,294
Total net assets	1,322,734
Total liabilities and net assets	2,419,800

(2) Consolidated statement of income consolidated statement of comprehensive income

Consolidated statement of income

(Thousands of yen)

	Consolidated fiscal year ended December 31, 2021
Net sales	1,010,186
Cost of sales	222,621
Gross profit	787,565
Selling, general and administrative expenses	767,383
Operating profit	20,181
Non-operating income	
Interest income	14
Miscellaneous income	941
Others	0
Total non-operating income	955
Non-operating expenses	
Interest expenses	5,526
Share acquisition rights issuance cost	1,961
Total non-operating expenses	7,487
Ordinary profit	13,650
Profit before income taxes	13,650
Total income taxes	2,382
Income taxes-current	2,382
Net profit	11,267
Profit attributable to non-controlling interests	-
Profit attributable to owners of parent	11,267

Consolidated statement of comprehensive income

(Thousands of yen)

	Consolidated fiscal year ended December 31, 2021
Net profit	11,267
Comprehensive profit	11,267
(Itemization)	
Profit attributable to owners of parent	11,267
Profit attributable to non-controlling interests	-

(3) Consolidated statement of changes in equity

Fiscal year ended December 31, 2021 (January 1, 2021 - December 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	18,547	1,362,723	(174,656)	(156)	1,206,458
Changes during period					
Issuance of new shares	45,999	45,999			91,999
Profit attributable to owners of parent			11,267		11,267
Acquisition of treasury shares				(285)	(285)
Net changes in items other than shareholders' equity					
Total changes during period	45,999	45,999	11,267	(285)	102,981
Balance at end of period	64,546	1,408,723	(163,388)	(441)	1,309,439

	Share acquisition rights	Total net asset
Balance at beginning of period	-	1,206,458
Changes during period		
Issuance of new shares		91,999
Profit attributable to owners of parent		11,267
Acquisition of treasury shares		(285)
Net changes in items other than shareholders' equity	13,294	13,294
Total changes during period	13,294	116,275
Balance at end of period	13,294	1,322,734

(4) Consolidated statement of cash flows

(Thousands of yen)

Consolidated fiscal year ended
December 31, 2021

Cash flows from operating activities	
Profit before income taxes	13,650
Depreciation	85,507
Amortization of goodwill	5,575
Interest income	(14)
Interest expenses	5,526
Share acquisition rights issuance costs	1,961
Decrease (increase) in trade receivables	6,546
Decrease (increase) in inventories	(81,562)
Increase (decrease) in trade payables	(49,268)
Other-net	18,478
Subtotal	6,399
Interest received	14
Interest paid	(6,254)
Income taxes paid	(948)
Net cash provided by (used in) operating activities	(788)
Cash flows from investing activities	
Purchase of property, plant and equipment	(158,228)
Purchase of intangible assets	(96,636)
Payments of leasehold and guarantee deposits	(12,140)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(227,580)
Net cash provided by (used in) investing activities	(494,585)
Cash flows from financing activities	
Repayments of long-term borrowings	(3,420)
Proceeds from issuance of shares	91,999
Proceeds from issuance of share acquisition rights	8,259
Purchase of treasury shares	(285)
Net increase (decrease) in short-term borrowings	400,000
Net cash provided by (used in) financing activities	496,553
Net increase (decrease) in cash and cash equivalents	1,178
Cash and cash equivalents at the beginning of period	1,424,812
Cash and cash equivalents at the end of period	1,425,990

- (5) Notes to the financial statements
 (Note on going concern assumptions)
 Not applicable

(Segment information)

As the Company's business segment is the single segment of AI engineering business, segment information is omitted.

(Per share information)

	Consolidated fiscal year ended December 31, 2021
Net asset per share	91.59 Yen
Net profit (loss) per share	0.79 Yen
Diluted net profit per share	0.76 Yen

(Notes)

The basis for calculation of net income per share and diluted net income per share is as follows.

	Consolidated fiscal year ended December 31, 2021
Net profit (loss) per share (yen)	
Profit attributable to owners of parent (thousand yen)	11,267
Amount not attributable to common shares shareholders (thousand yen)	-
Net profit (loss) related to common shares (thousand yen)	11,267
Average number of common shares during the period (shares)	14,185,227
Net profit per share (diluted)	
Increase in the number of common stocks (shares)	625,694
(Number of share issued upon exercise of acquisition rights (shares))	625,694
Outline of latent shares not included in the calculation of diluted net profit per share due to the absence of dilutive effects	-

(Significant events after reporting period)

Not applicable.