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Financial Results for the Nine Months Ended September 30, 2020 [Japanese GAAP]

Company name:	Neural Pocket Inc.
Stock exchange listing:	Tokyo
Code:	4056
URL:	https://www.neuralpocket.com/en/index.html
Representative:	Roi Shigematsu, Chief Executive Officer
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Schedule date of filing quarterly securities report:	November 13, 2020
Schedule date to commence dividend payment:	—
Preparation of supplementary materials on financial results:	Yes
Schedule of quarterly financial result briefing session:	Yes (for institutional investors and analysts)

1. Financial results for the nine months ended September 30, 2020 (January 1, 2020 - September 30, 2020)

(1) Operating results

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

	Net sales		Operating profit		Ordinary profit		Quarterly net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 30, 2020	511	—	96	—	75	—	75	—
September 30, 2019	—	—	—	—	—	—	—	—
	Quarterly net profit per share		Diluted quarterly net profit per share					
		Yen		Yen				
Nine months ended September 30, 2020		5.59		5.19				
September 30, 2019		—		—				

Notes

- As Neural Pocket Inc. (“the Company”) did not prepare quarterly financial statements for the third quarter of the fiscal year ended December 31, 2019 (Q3 FY2019), no data is provided for Q3 FY2019 and no year-on-year quarterly comparisons are provided for the third quarter of the fiscal year ending December 31, 2020 (Q3 FY2020).
- The Company conducted a 1000-for-1 stock split of common stocks as of April 15, 2020, by the resolution of the Board of Directors meeting on March 27, 2020. The “quarterly net profit per share” and “diluted quarterly net profit per share” are calculated assuming that the said stock split was conducted at the beginning of the previous fiscal year.

(2) Financial condition

	Total assets	Net assets	Equity capital ratio
	Millions of yen	Millions of yen	%
As of September 30, 2020	1,734	1,117	64.4
December 31, 2019	1,056	625	59.2

Reference Equity capital As of September 30, 2019 1,117million yen As of December 31, 2019 625million yen

2. Dividend situation

	Annual dividends				
	1Q	2Q	3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2019	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2020	—	0.00	—	—	—
FY 12/2020 (expected)	—	—	—	0.00	0.00

Note: Revision of recently announced dividend expectation : None

3. Financial results forecast for the Fiscal Year Ending December 31, 2020 (January 1, 2020 - December 31, 2020)

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

	Net sales		Operating profit		Ordinary profit		Net profit		Per-share net profit
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full term	776	149.4	165	—	139	—	115	—	8.52

Note: Revision of recently announced dividend expectation : None

* Notes

(1) Application of specific accounting treatment in preparation of quarterly financial statements : None

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

1. Accounting policy changes due to revision of accounting standards : None

2. Accounting policy changes other than (1) above : None

3. Changes in accounting-based estimates : None

4. Revision-based restatements : None

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

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

September 30, 2020: 13,971,200 shares

December 31, 2019: 13,369,000 shares

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

September 30, 2020: -shares

December 31, 2019: -shares

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

Nine months ended September 30, 2020: 13,451,199 shares

Nine months ended December 31, 2019: -shares

(Notes)

1. The Company conducted a 1000-for-1 stock split of common stocks as of April 15, 2020, by the resolution of the Board of Directors meeting on March 27, 2020. The "quarterly net profit per share" and "diluted quarterly net profit per share" are calculated assuming that the said stock split was conducted at the beginning of the previous fiscal year.

2. Quarterly financial statements were not prepared for Q3 FY2019, so there is no entry for the average number of shares during the period.

* The quarterly short form results report is not subject to quarterly review by certified public accounts or accounting firms.

* Proper use of financial results forecasts, and other special matters

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

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

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1. Qualitative information in this quarterly account closing

(1) Explanation of operating results

Our company's mission is "for a more convenient world, and greater happiness for people." In the cumulative third quarter, we independently developed and provided Smart City formation services, led by "people flow and crime prevention," "parking spaces and mobility," "3D city maps," "signage advertising," "work-from-home call centers" and "fashion analysis."

As a result of the foregoing, net sales for 3Q FY2020 were ¥511,637 thousand with operating profit of ¥96,624 thousand, ordinary profit of ¥75,864 thousand, and net profit of ¥75,153 thousand.

Since our company has only one business segment, AI Engineering, by-segment entries are omitted.

For further details on our account closing content, please refer to the "3Q FY 12/2020 results review" in our IR site updated on November 13, 2020.

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

(2) Explanation of financial position

Assets

Current assets are ¥1,528,592 thousand, an increase of ¥608,734 thousand over the previous fiscal year. This derived mainly from higher short-term borrowings and a public subscription capital increase that boosted cash and deposits by ¥545,399 thousand, and a net sales gain that increased notes and accounts receivable - trade receivable by ¥55,529 thousand. Total assets thereby rose by ¥677,405 thousand to ¥1,734,333 thousand.

Liabilities

Current liabilities at the end of the period were ¥505,047 thousand, a gain of ¥188,800 thousand over the previous fiscal year-end, due mainly to a ¥190,000 thousand increase in short-term borrowings. Liabilities thus totaled ¥617,017 thousand, an increase of ¥185,950 thousand.

Net assets section

Net assets totaled ¥1,117,315 thousand, higher by ¥491,455 thousand, due mainly to retained earnings increases and a public subscription capital increase.

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

Our financial guidance for the fiscal year ending December 31, 2020 contains forward-looking statements such as financial results forecasts which are based on information currently available to the Company and certain assumptions deemed to be reasonable. The Company makes no guarantee regarding the accuracy of the forecasts contained herein. Results may differ materially from the forecasts due to various factors.

2. Quarterly financial statements and principal notes

(1) Quarterly balance sheet

(Thousands of yen)

	As of December 31, 2019	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	825,778	1,371,178
Notes and accounts receivable-trade	84,150	139,679
Others	9,929	17,734
Total current assets	919,858	1,528,592
Non-current assets		
Property, plant and equipment	31,676	45,097
Intangible assets	34,500	89,545
Investments and other assets	70,892	71,098
Total non-current assets	137,070	205,741
Total assets	1,056,928	1,734,333
Liabilities		
Current liabilities		
Short-term borrowings	260,000	450,000
Income taxes payable	290	711
Current portion of long-term borrowings	3,420	3,420
Others	52,537	50,916
Total current liabilities	316,247	505,047
Non-current liabilities		
Long-term borrowings	114,820	111,970
Total non-current liabilities	114,820	111,970
Total liabilities	431,067	617,017
Net assets		
Shareholders' equity		
Share Capital	100,000	308,150
Capital surplus	847,875	1,056,026
Retained earnings	△322,014	△246,860
Total shareholders' equity	625,860	1,117,315
Total net assets	625,860	1,117,315
Total of liabilities and net assets	1,056,928	1,734,333

(2) Quarterly statement of income

(Thousands of yen)

	For the nine months ended September 30, 2020
Net sales	511,637
Cost of sales	44,828
Gross profit	466,809
Selling, general and administrative expenses	370,184
Operating profit	96,624
Non-operating income	
Interest income	7
Subsidy income	251
Others	17
Total non-operating income	276
Non-operating expenses	
Interest expenses	4,379
Foreign exchange losses	67
Going public expense	11,648
Share issuance costs	4,940
Total non-operating expenses	21,036
Ordinary profit	75,864
Profit before income taxes	75,864
Income taxes - current	711
Total of income taxes	711
Quarterly net profit	75,153

(3) Notes to the quarterly financial statements

(Note on going concern assumptions)

Not applicable

(Notes on material changes in shareholders' equity amount)

For the nine months period ended September 30, 2020 (from January 1, 2020 to September 30, 2020)

1. Dividend payment amount

Not applicable

2. Of dividends related to the nine months period as of the record date, the dividend effect origin date follows the final day of the period.

Not applicable

3. Material changes in shareholders' equity

On August 20, 2020, the Company's stock was listed on the Tokyo Stock Exchange's Mothers market. In this listing, 415,000 new shares were issued in paid subscriptions using the book-building format, with a pay-in date of August 19, 2020. Share capital and legal capital surplus were thereby increased by ¥171,810 thousand each.

Further, 82,200 new shares were issued in a paid private placement (over-allotment-based distribution to third parties) with a pay-in date of September 24, 2020. This increased share capital and legal capital surplus by ¥34,030 thousand each.

As a result, share capital as of September 30, 2020 was ¥308,150 thousand and capital surplus were ¥1,056,026 thousand.

(Significant subsequent events)

At a Board of Directors meeting convened on October 26, 2020, it was resolved that an extraordinary shareholders' meeting would be held on December 25, 2020 to debate a capital reduction.

a. Purpose of reduction of share capital

As a part of the management strategy, the Company is adopting an optimal capital policy to ensure flexibility and mobility, and contribute to the maximization of enterprise value and shareholder returns, the Company will reduce share capital and transfer other capital surpluses, under Article 447-1 of the Companies Act.

b. Reduction method

The method is to be a gratis capital reduction without repayment, no change in the total number of issued shares, capital reduction amount of ¥298,150,800 to be transferred to other capital surplus. If stock options issued by the Company are exercised before the reduction goes into effect date, the share capital amount and the post-reduction capital amounts will be changed.

c. Reduction amount

The stated capital of ¥308,150,800 will be reduced by ¥298,150,800 to ¥10,000,000. If stock options issued by the Company are exercised prior to the date that the reduction goes into effect, the amount of stated capital and the resulting amount after the reduction will change.

d. Effective date of reduction of share capital

December 28, 2020 (tentative)

e. Schedule for share capital reduction

Resolution by the board of directors:	October 26, 2020
Extraordinary shareholders' meeting:	December 25, 2020 (tentative)
Closing date for creditor objections:	December 17, 2020 (tentative)
Date reduction goes into effect	December 28, 2020 (tentative)