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Financial Results for the Three Months Ended March 31, 2022 [Japanese GAAP]

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 Stock exchange listing: Tokyo
 Code: 4056
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 Schedule date of filing quarterly securities report: May 13, 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 three months ended March 31, 2022 (January 1, 2022 - March 31, 2022)

(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	%
Three months ended March 31, 2022	513	-	(103)	-	(108)	-	(117)	-
March 31, 2021	-	-	-	-	-	-	-	-

Notes Comprehensive profit Three months ended March 31, 2022 (117) million yen (-%) Three month ended March 31, 2021 -million yen (-%)

	Quarterly net loss per share	Diluted quarterly net profit per share
Three months ended March 31, 2022	Yen (8.22)	Yen -
March 31, 2021	-	-

Notes

- Since the Company has been preparing consolidated financial statements since the end of the previous fiscal year, figures for the first quarter of the fiscal year ended December 31, 2021 and percentage change from the same period of previous fiscal year, are not shown.
- Net income per share-fully diluted is not shown in the above table, because net profit per share was negative although there are residual shares.

(2) Consolidated financial condition

	Total assets	Net assets	Equity capital ratio
As of	Millions of yen	Millions of yen	%
March 31, 2022	4,603	1,187	25.7
December 31, 2021	2,419	1,322	54.1

Reference Equity capital As of March 31, 2022 1,183 million yen As of December 31, 2021 1,309 million yen

2. Dividend situation

	Annual dividends				
	1Q	2Q	3Q	Year-end	Total
Fiscal year ended December 31, 2021	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00
Fiscal year ended December 31, 2022	-				
Fiscal year ending December 31, 2022(expected)		0.00	-	0.00	0.00

Note: Revision of recently announced dividend expectation : None

2. Consolidated financial 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	3,200	216.8	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 1 company NETTEN Inc. Excluded from the group None -

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

1. Accounting policy changes due to revision of accounting standards : Yes
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)

As of March 31, 2022:	14,296,200 shares
As of December 31, 2021:	14,296,200 shares
2. Total number of treasury shares at end of the period

As of March 31, 2022:	86 shares
As of December 31, 2021:	86 shares
3. Average number of shares during the period

Three months ended March 31, 2022:	14,296,114 shares
Three months ended March 31, 2021:	14,068,588 shares

* Financial results reports are exempt from audit conducted by certified public accountants or audit firms.

* Proper use of financial 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

Forward-looking statements in the text are based on judgments made as of the end of the first quarter of the current consolidated fiscal year. Since the Company did not prepare quarterly consolidated financial statements for the first quarter of the previous fiscal year, a comparative analysis with the same period of the previous year is not provided.

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 digital signage as a medium.

In the Digi-solutions service domain, we provide "Digipark," which enables efficient operation of parking lots and truck berths at logistics facilities using AI cameras, "Digiflow," which can be used to analyze human flow and prevent crime in the city, and "Remodesk," a telecommuting support tool.

The Lifestyle services domain consists of "AIMD," a fashion trend analysis for apparel industry.

As a result of the above, net sales for the first quarter of the current consolidated fiscal year totaled 513,633 thousand yen, with an operating loss of (103,040) thousand yen, an ordinary loss of (108,785) thousand yen, and net loss attributable to owners of parent of (117,496) 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 Q1 FY2022 (ended March 31, 2022)" released on May 13, 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 first quarter of the current consolidated fiscal year totaled 2,295,424 thousand yen, an increase of 536,752 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to 56,650 thousand yen increase in cash and deposits, 107,683 thousand yen increase in accounts receivable-trade, and 201,784 thousand yen increase in inventories.

Noncurrent assets at the end of the first quarter of the current consolidated fiscal year totaled 2,308,215 thousand yen, an increase of 1,647,086 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 1,478,336 thousand yen in goodwill.

As a result, total assets amounted to 4,603,640 thousand yen, 2,183,839 thousand yen increased from the end of the previous consolidated fiscal year.

Liabilities

Current liabilities at the end of the first quarter amounted to 1,707,731 thousand yen, 718,645 thousand yen increased from the end of the previous fiscal year. This was mainly due to a 490,048 thousand yen increase in short-term loans payable and current portion of long-term loans payable.

Noncurrent liabilities at the end of the first quarter amounted to 1,708,267 thousand yen, an increase of 1,600,287 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 1,460,355 thousand yen in long-term loans payable.

As a result, total liabilities amounted to 3,415,998 thousand yen, 2,318,932 thousand yen increased from the end of the previous consolidated fiscal year.

Net assets

Total net assets as of March 31, 2022 amounted to 1,187,641 thousand yen, a decrease of 135,092 thousand yen from the end of the previous fiscal year. This was mainly due to a decrease in retained earnings.

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

Based on recent performance trends, we have revised our consolidated earnings forecast for the fiscal year ending December 31, 2022, which was announced on February 10, 2022, as follows.

	Net sales	Operating profit	Ordinary profit	Net profit attributable to owners of parent	Net profit per share
Previous financial forecast (A)	Millions of yen 1,800	Millions of yen 20	Millions of yen 5	Millions of yen 2	Yen 0.13
Revised financial forecast (B)	3,200	20	5	2	0.13
Increase (Decrease) (B-A)	1,400	—	—	—	—
Ratio of increase/decrease (%)	77.8	—	—	—	—
(Reference) Financial results ended December 31, 2021	1,010	20	13	11	0.79

Reason for the revision

As disclosed in the "Announcement regarding acquisition of shares of NETTEN Inc. (Subsidiary acquisition)" on February 21, 2022. (Subsidiary acquisition)" disclosed on February 21, 2022, we made NETTEN Inc. a wholly owned subsidiary on February 21, 2022. As a result, we have revised our consolidated earnings forecast for the fiscal year ending December 31, 2022, to reflect the inclusion of NETTEN's performance from that date in our consolidated results.

The forecast figures in this document are based on information available at the time of preparation and actual results may differ from the forecast figures due to various factors.

3. Quarterly financial statements and principal notes

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current Assets		
Cash and deposits	1,425,990	1,482,641
Accounts receivable - trade	190,536	298,219
Merchandise	120,965	322,749
Others	21,179	191,813
Total current assets	1,758,671	2,295,424
Non-current assets		
Property, plant and equipment		
Buildings	38,653	36,994
Tools, furniture and fixtures	209,400	288,053
Machinery, equipment and vehicles	-	2,126
Accumulated depreciation	(36,102)	(63,932)
Total property, plant and equipment	211,951	263,241
Non-current assets		
Software	130,360	120,828
Software in process	8,202	-
Goodwill	228,599	1,706,935
Total intangible assets	367,162	1,827,764
Investments and other assets		
Deferred tax assets	-	24,369
Leasehold and guarantee deposits	82,015	105,716
Other	-	87,124
Total investments and other assets	82,015	217,209
Total non-current assets	661,128	2,308,215
Total assets	2,419,800	4,603,640
Liabilities		
Current liabilities		
Account payable-trade	17,901	79,955
Current portion of bonds payable	-	34,000
Short-term borrowing	850,000	950,000
Current portion of long-term borrowings	3,420	393,468
Income taxes payable	2,382	11,548
Provision for bonuses	-	9,202
Other	115,382	229,556
Total non-current borrowings	989,086	1,707,731
Non-current Liabilities		
Bonds	-	90,000
Long-term borrowings	107,980	1,568,335
Retirement benefit liability	-	49,932
Total non-current borrowings	107,980	1,708,267
Total liabilities	1,097,066	3,415,998

(Thousands of yen)

	As of December 31, 2021	As of March 31, 2022
Net assets		
Shareholders' equity		
Share capital	64,546	64,546
Capital surplus	1,408,723	1,408,723
Retained earnings	(163,388)	(289,346)
Treasury shares	(441)	(441)
Total shareholders' equity	1,309,439	1,183,481
Valuation difference on available-for-sale securities	-	(220)
Total accumulated other comprehensive income	-	(220)
Share acquisition rights	13,294	4,381
Total net assets	1,322,734	1,187,641
Total liabilities and net assets	2,419,800	4,603,640

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

Consolidated statement of income

1st Quarter Accumulation Period

(Thousands of yen)

	For the three months ended March 31, 2021
Net sales	513,633
Cost of sales	162,047
Gross profit	351,586
Selling, general and administrative expenses	454,626
Operating loss	(103,040)
Non-operating income	
Interest income	34
Foreign exchange gains	1,082
Other	925
Total non-operating income	2,042
Non-operating expenses	
Interest expenses	4,375
Financing expenses	3,250
Other	162
Total non-operating expenses	7,787
Ordinary loss	(108,785)
Extraordinary income	
Gain on sales of non-current assets	8,220
Total extraordinary income	8,220
Loss before income taxes	(100,565)
Income taxes-current	20,340
Income taxes - deferred	(3,409)
Total income taxes	16,931
Loss	(117,496)
Profit attributable to non-controlling interests	-
Loss attributable to owners of parent	(117,496)

Quarterly consolidated statement of comprehensive income

1st Quarter Accumulation Period

(Thousands of yen)

	For the three months ended March 31, 2021
Net loss	(117,496)
Other comprehensive income	
Valuation difference on available-for-sale securities	(220)
Total other comprehensive income	(220)
Comprehensive income	(117,717)
(Itemization)	
Owners of parent	(117,717)
Non-controlling interests	-

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Change in accounting policy)

(Application of Accounting Standard for Revenue Recognition)

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. (hereinafter referred to as the "Accounting Standard for Revenue Recognition") The Company and its subsidiaries adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and others from the beginning of the first quarter of the current fiscal year, and recognized revenue at the amount expected to be received in exchange for the promised goods or services when control of the promised goods or services has been transferred to the customer.

As a result, for certain transactions in the AI engineering business, the Company changed the method of recognizing revenue over a certain period of time based on the degree of progress when the customer receives benefits as the performance obligation is fulfilled. However, for transactions with very short contract periods, revenue is recognized when the performance obligation is fully satisfied.

The Company has followed the transitional treatment stipulated in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, and the cumulative effect of retrospective application of the new accounting policy prior to the beginning of the first quarter of the current consolidated fiscal year has been added to or subtracted from retained earnings at the beginning of the first quarter of the current consolidated fiscal year. The cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the first quarter of the current fiscal year has been added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policy has been applied to the beginning balance of the current fiscal year. In addition, the Company has applied the method prescribed in Paragraph 86 and Note (1) of the Accounting Standard for Revenue Recognition to account for contract modifications made prior to the beginning of the first quarter of the current fiscal year based on the contract terms after reflecting all contract modifications, and the cumulative effect of such modifications has been The cumulative effect of these changes was added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year.

As a result, net sales increased 8,461 thousand yen, and operating loss, ordinary loss, and loss before income taxes and minority interests each decreased 8,461 thousand yen in the first quarter of the current fiscal year. In addition, the balance of retained earnings at the beginning of the period decreased by 8,461 thousand yen.

(Application of Accounting Standard for Measurement of Fair Value)

The "Accounting Standard for Calculation of Fair Value" (ASBJ Statement No. 30, July 4, 2019. ("Accounting Standard for Fair Value Calculation"). and others are applied from the beginning of the first quarter of the current fiscal year, and the new accounting policy stipulated in paragraph 19 of the Accounting Standard for Fair Value Calculation and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019) are applied from the beginning of the first quarter of the current fiscal year. In accordance with the transitional treatment, the new accounting policies prescribed by the Accounting Standard for Fair Value Calculation will be applied prospectively. There is no impact on the quarterly consolidated financial statements.

(Segment information)

1st Quarter Accumulation Period (from January 1, 2022 to March 31, 2022)

Segment information is omitted because the Group's business segment is a single segment of the AI engineering business.

(Pre share information)

Net loss per share and basis of calculation are as follows.

	For the three months ended March 31, 2022
(1) Net loss per share()	(8.22)
(Calculation Basis)	
Loss attributable to owners of parent (thousand yen)	(117,496)
Amount not attributable to common shares shareholders (thousand yen)	-
Net loss attributable to owner of parent related to common shares ()(thousand yen)	(117,496)
Average number of common shares during the period (shares)	14,296,114
Outline of latent shares not included in the calculation of diluted net profit per share due to the absence of dilutive effects	-

(Note) Net profit per share (diluted) is not shown in the above table, because net profit per share is negative although there are residual shares.

(Significant events after reporting period)

Not applicable.