



Neural Pocket Inc.

FY2022 Q1 Financial Results Briefing Meeting

May 16, 2022

Presentation

Moderator: It is time to begin. Thank you all for taking time out of your busy schedules today to participate in the quarterly financial results briefing session for 1Q of the fiscal year ending December 2022 of Neural Pocket Inc.

Today's presentation will be based on the financial results presentation material disclosed on our IR website on May 13.

Let me explain today's process. Mr. Shigematsu, Representative Director, will give a 30-minute presentation on business overview and performance. There will then be a question-and-answer session until 1:00 PM maximum. Questions will be answered by both Mr. Shigematsu, Chief Executive Officer and Mr. Tane, Director, Chief Financial Officer.

Thank you for your patience. Mr. Shigematsu, Representative Director, will provide an overview of our business and financial results. Well then, Representative Director, please start.

Shigematsu: Thank you all for taking time out of your busy schedules to join us today.

In terms of business conditions, I believe that momentum has returned to the AI industry. Our company's business performance has been improving, and I think we are now at a stage where we can feel the growth of our company. I have already included most of the information in the financial statements, but I would like to explain some of the supplementary information.



Neural Pocket possesses proprietary AI libraries/ technologies to enable the AI-ization of society and smart cities

People attribute analysis				People emotion and thought analysis		
Gender/ age estimation 	Facial recognition 	Line-of-sight detection 	Fashion analysis 	Facial expression, emotion analysis 	Voice/ emotion analysis 	Natural language processing
People movement and behavior analysis				Vehicle analysis		
Congestion analysis 	Vacancy detection 	Safe monitoring 	Intrusion detection crime prevention 	Traffic analysis 	Parking occupancy 	License plate detection
Technologies related to social implementation of AI						
Edge AI 	Edge security 	Ad delivery optimization 	AI-enabled product recommendation 	Data analytics 	Digital signage integration 	Mobile app integration

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I would like to start by explaining the progress of our technology, which I feel is almost complete. I believe that the time has come for us to consider expanding our business both in Japan and overseas, and we are now ready to provide AI services in Japan and around the world.

In terms of technological expansion, we have expanded from our main strength of analyzing people's attributes to include emotional analysis, thoughts, and the right side of the spectrum, which of course includes photographic images as well as voice and text. We have been doing this for a long time, but we have also seen a considerable increase in stable operations, and I think we are now at a level where we can compete on a global level in the industry.

As for vehicles, the number of vehicles, especially parking, that have been installed has increased considerably, and I believe that we are now ready to introduce AI technology into road infrastructure.

The lower part of this section is technology related to the social implementation of AI. As an AI company, this is the most important point, but the fact is that AI will not work even if we only build the AI engine above. Also, edge technologies, and security in expanding sales of edge devices, which is very important, have been enhanced in terms of security that enables each individual device to respond to cyber-attacks, physical attacks, and all other types of attacks.

The rest is what we call optimization AI. Optimization includes ad serving, which is what we are aiming for, a kind of recommendation engine, and analytics, which is an area called AI for optimization, and I think we have made a lot of progress in this area as a live service. Then there is the linkage between AI and signage, and AI and apps. I believe that this series of expansion is now in place.



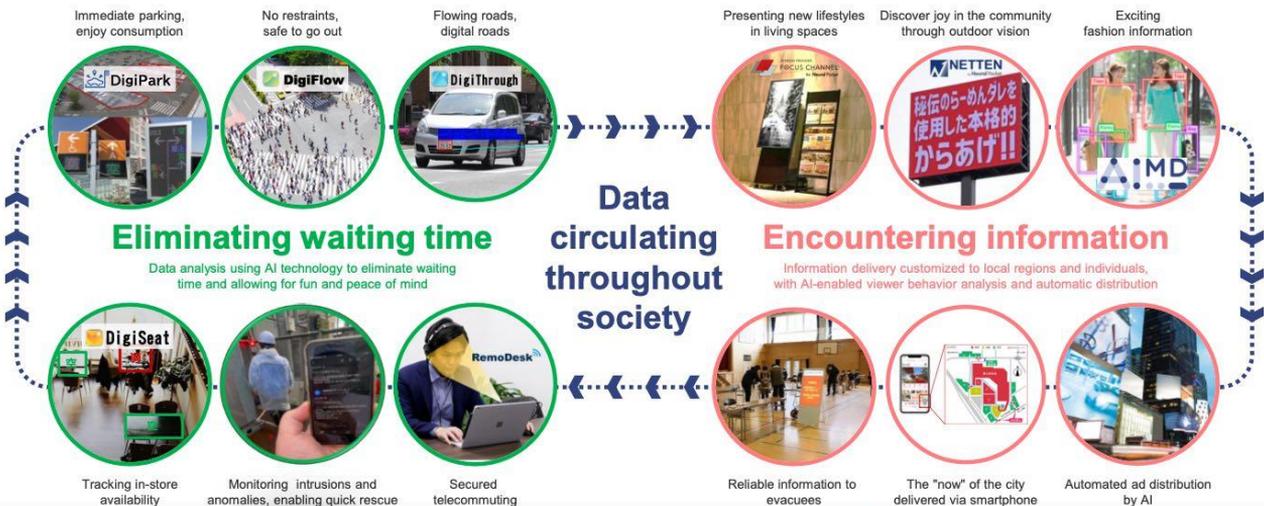
Our vision of AI Smart Cities

We believe that AI technology has the power to enrich our daily lives. Until now, there have been various kinds of waiting times in our daily lives. In the suburbs, we had to wait for buses and trains to arrive or to be available. Even in emergencies, we had to wait for rescue. By using AI technology to digitize physical spaces, we are **eliminating waiting time** in the city, where people can live safely and conveniently. We also use AI-equipped digital signages to deliver local and personalized information, making it possible to create a town where people can **encounter new information**.

We are also designing a society where **data circulates across the city**, just as it does on the Internet, and where people can receive the information they want and make optimal decisions in real life scenes. Our goal is to create social impact through the realization of **AI Smart Cities**.



Extensive proprietary AI libraries



In this context, we have just begun our fifth year in business, and I think we have finally put our vision into action. I have been saying that AI companies all over the world are thinking about what AI companies can contribute to society, and I think we have finally come up with a solution.

I think there are actually two things that we will use AI for. The left side says, “eliminating waiting time.” The first major theme is to turn the time spent waiting and other non-value-added time into time for enjoyment and peace of mind through data analysis using AI technology. This is not only a theme for Japan, but for the entire world.

For example, the time spent waiting for parking, as shown on the left side, can be used for consumption, or the time spent waiting for parking, as shown in the middle, can be used to go out safely based on self-restraint, people flow counting and crime prevention security, etc. In short, you can go out quickly and enjoyably and consume.

Then there's the digital road due to the flow of the road. For example, we are now looking into the possibility of linking with self-driving cars and inter-vehicle communication by providing such AI functions on the road infrastructure side, as well as in parking lots.

Then there is the so-called food and beverage area in the lower left corner. You can see the availability of such things. About the intrusion and other anomalies. It says, rescue without waiting, but the time spent waiting is not only the time spent waiting for traffic jams, but also the time spent waiting for help to arrive immediately, for immediate evacuation due to disaster prevention, etc. These are actually important waiting times. The rest is commuting, and by working from home, we write it off as commuting from home, but we call it, “eliminating waiting time,” in the overall sense of using such commuting time for work time, family time, and personal time.

The second major theme on the right is a town where you can encounter information. This is a very important pillar of our vision. AI technology, when looked at globally, is generally used for analysis, but there have been few smart cities that have been able to transmit this information in a push-button manner and provide it as value-added information to consumers.

Recently, we have been actively investing in companies that have this kind of signage and screens, but why we are doing is, as shown on the left side, when we connect what is analyzed by AI with actual changes in social behavior, we deliver it in an optimal way as information closely related to the community and individuals. This means AI of optimization but delivering it optimally. And we are about to implement viewer analysis and delivery automation with AI. The digitization of information in society is in fact an integral part of AI.

For example, in the Focus Channel section above, we have written about creating new lifestyles in living spaces, and we are currently doing this in some condominiums and office buildings. We are also looking for ways to bring new regional information, local information, new fun and games, and local specialties to your condominium. That leads to consumption. It would connect it to this kind of new lifestyle. In addition, as we have just acquired NETTEN, I believe that it is essential to work with AI to transmit the joys of the community through outdoor vision.

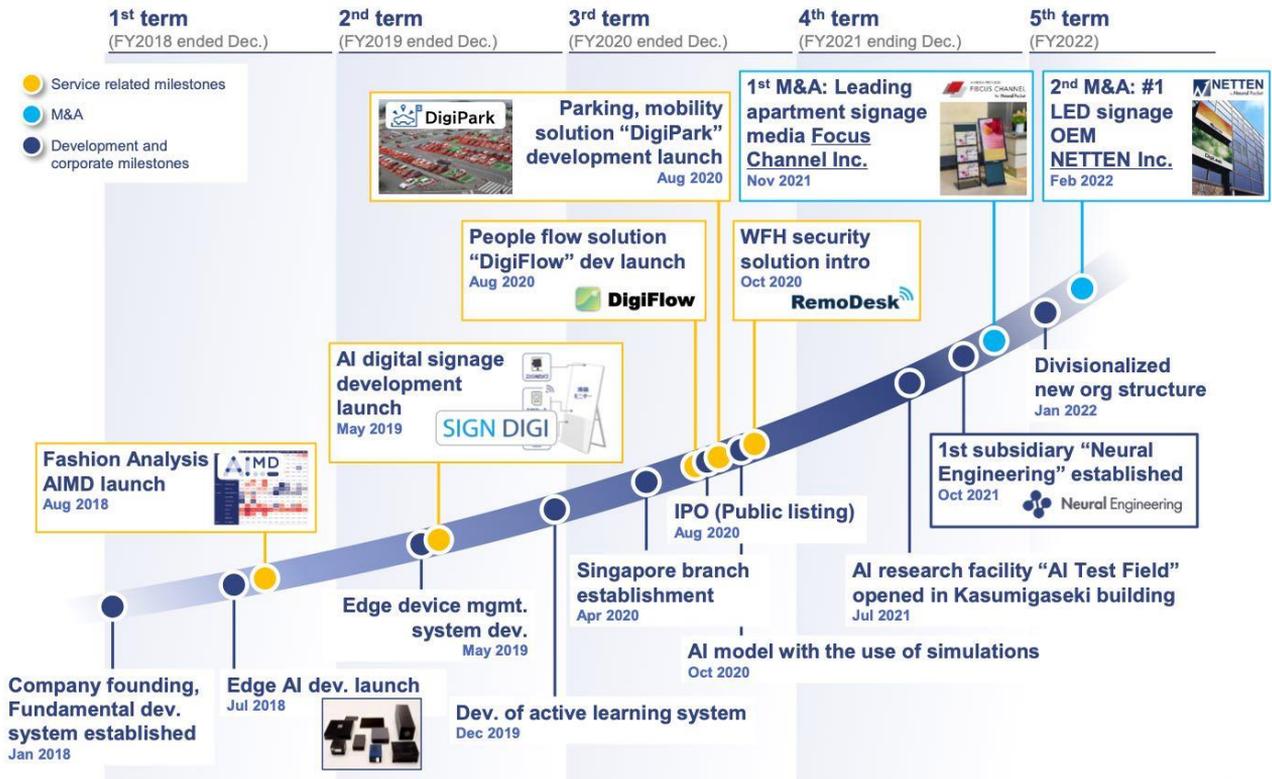
Also, as you can see in the bottom row, we have been doing this for a long time, but we have to provide reliable information to the evacuees. As a smart city operator, we are working with local governments across the country, and we are trying to reduce the time people spend waiting for evacuation, or in other words, to quickly evacuate the area. We would disseminate necessary evacuation information there. We could see these series of connections.

It says in the middle that this is a society where data circulates. We believe that a smart city is a series of information analyzed by AI, information optimized and transmitted on the screen, and information viewed by the viewers circulates in society.



History of Neural Pocket

The company has been developing multiple AI services in succession. Further acceleration through 2 recent M&As.



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Page nine will be the Company's history to date.

In the area related to the current financial results, we have just acquired NETTEN, a fabless LED signage company. This has already been announced previously in a timely disclosure, but this company is now 7,000 companies, which I will discuss on the next page.

These outdoor billboards have been partially connected to the Internet but have not yet been equipped with any AI. I believe this is one of the best examples of how we are expanding sales of such non-AI assets.

Introducing NETTEN Inc.

 Top share of domestic market for LED signboards. With 10 locations nationwide, the company possesses unique sales know-how and a maintenance infrastructure.

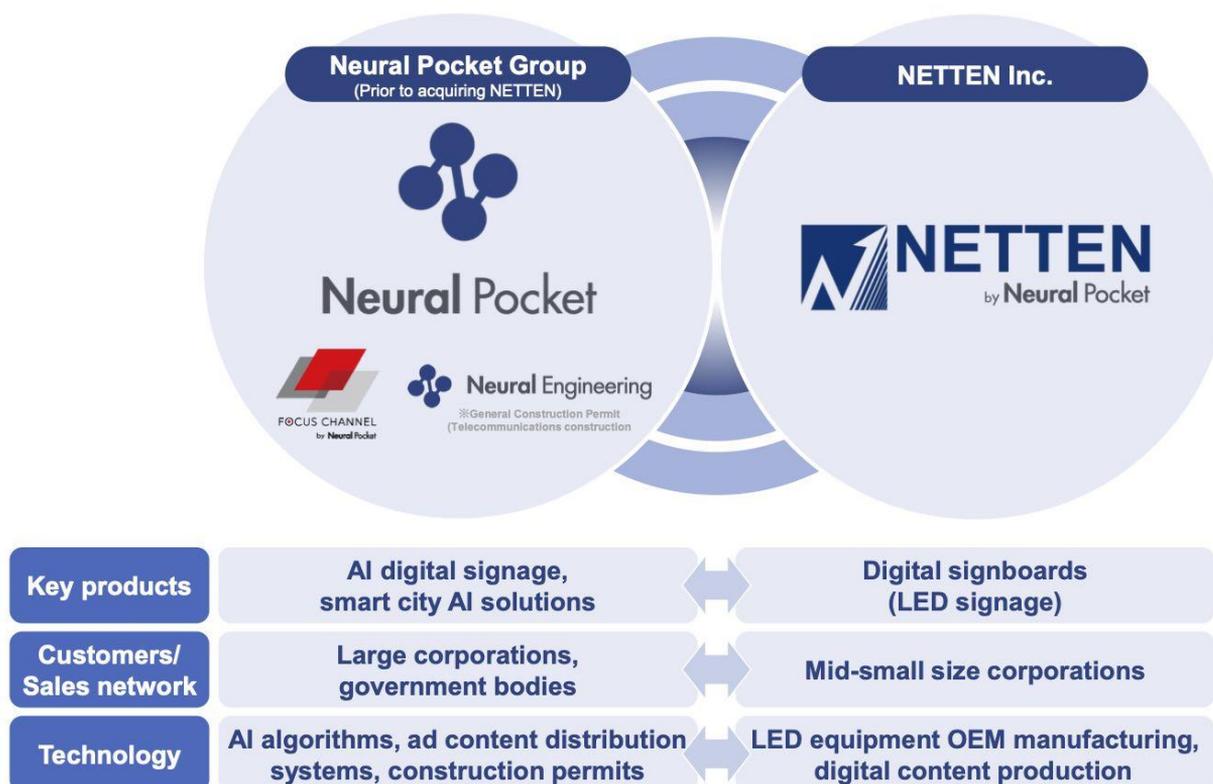
Company overview	Digital signboard – Installed examples
 <p>Name NETTEN Inc. Est. Aug. 2003 Rep. Masaaki Yamamoto HQ loc. 2-2-24, Sentai, Sumiyoshi-ku, Osaka Overview Sales of digital LED signage to mid-small retail stores, gov. agencies (89%), website production (10%), and others (1%). Locations Osaka HQ, Osaka, Tokyo HQ, Yokohama, Sendai, Niigata, Hiroshima, Nagoya, Fukuoka, Miyazaki (Total 10) Employee 109 full time employees (As of Mar. 31, exclude temp staff etc.) Track Record Installed 10,000+ units, to 7,000+ customers nationwide (Domestic #1)</p> <div style="display: flex; align-items: center;">  <div style="margin-left: 10px;"> <p><i>Total of 10 locations with focus on Osaka and Tokyo</i></p>  </div> </div> <p style="font-size: small;">Osaka HQ</p>	<p>DigiLook ※Brand name for LED signages produced by NETTEN Inc.</p> <div style="display: grid; grid-template-columns: 1fr 1fr; gap: 10px;"> <div style="text-align: center;"> <p>Building wall</p>  </div> <div style="text-align: center;"> <p>Portable</p>  </div> <div style="text-align: center;"> <p>Pillar</p>  </div> <div style="text-align: center;"> <p>Building slieve</p>  </div> </div>

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We have 10 locations nationwide now, and we have installed at 10,000 locations so far, which is 10,000 locations for 7,000 companies. By possessing these assets, I believe we have completed the AI smart city that we have been aiming for.

Pursuing business synergies with NETTEN



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Here is a map of synergy and reinforcement relationships.

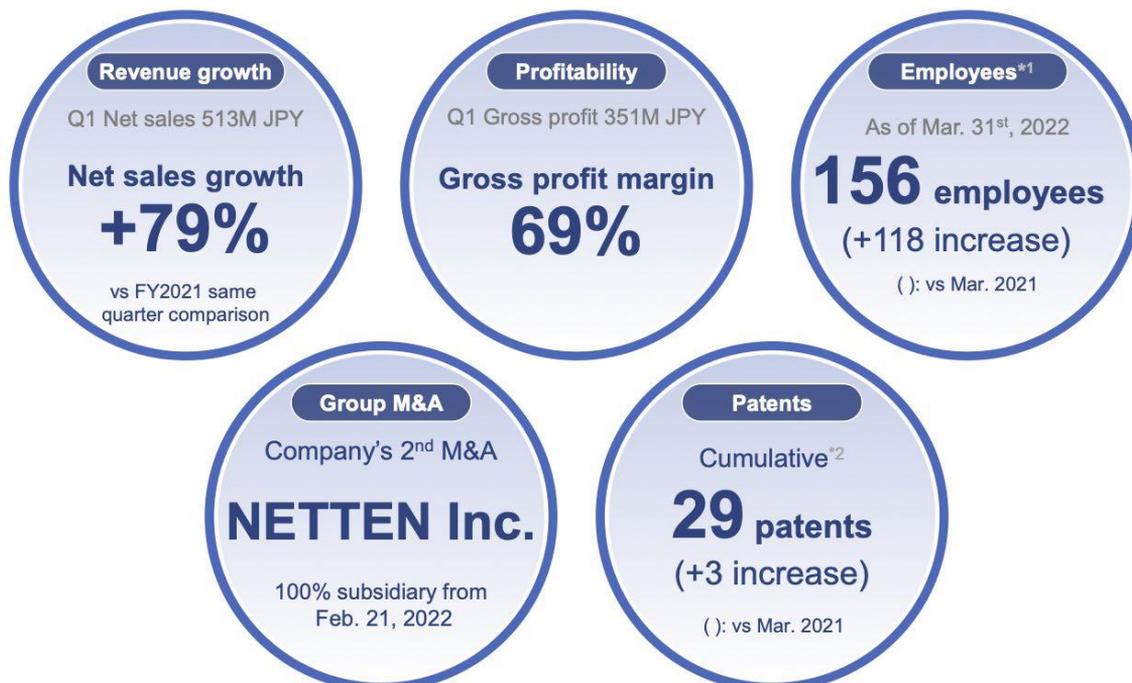
The Neural Pocket Group's main products have been AI, signage, and smart city solutions.

The main customers were large companies and public offices, the so-called central customers. The technologies are AI algorithms, ad delivery networks, which are CMSs for ad delivery, content management service systems, the optimization AI that optimizes delivery. Then there is the construction law and permits that Neural Engineering has, which will allow them to receive orders for AI systems in smart cities. We are now able to receive work from the national, public, and municipal governments, but it involves a series of skills and capabilities such as these. In contrast, NETTEN has what is called LED signage, which is signage that can be handled outdoors that is not LCD. And, as for customers, this is where there has been a long tail of mainly small and medium-sized companies.

The technology is a fables design technology for LEDs. Basically, they are a fables company that does not have their own factories, etc., but we have also developed content production and other such services. I think this is indispensable for AI solutions. I believe that the strengths of each of these companies, in other words, have created synergies in areas where there has been little overlap between them, and I believe that this is essential for AI solutions.

FY2022 ending Dec. Q1 highlights

 The company has further accelerated growth through a second M&A. We are make solid progress in scaling the business while maintaining high profitability.



*1 As of Mar. 31st, 2022. Excludes executives (Full-time board directors, auditors, executive officers) , part-time employees, subcontractors, interns. Includes full-time employees from subsidiaries, Neural Engineering Inc., Focus Channel Inc., NETTEN Inc.,

*2 Total of i) granted 16, ii) applying domestically 9, and iii) applying internationally 4. As of May 13th 2022.

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Here are the first quarter financial highlights.

The total amount was JPY513 million, up 79% YoY. Regarding gross profit, we are going to focus on gross profit margin from now on, but the gross profit of JPY351 million was generated.

FY2022 ending Dec. revised consolidated financial forecast

 Revised earnings forecast in light of NETTEN becoming a wholly owned subsidiary and the expected synergies to be generated in the short term with our AI services. Profit forecasts are unchanged, as the company plans to continue to make investments for future growth.

(million JPY)	FY2021 ended Dec. results	FY2022 ending Dec. previous forecast	FY2022 ending Dec. latest forecast	Increase Value	Increase Percentage
Net sales	1,010	1,800	3,200	+1,400	+77.8%
Gross profit <small>% of net sales</small>	787 78.0%	1,200 66.7%	2,100 65.6%	+900	+75.0%
EBITDA <small>% of net sales</small>	112 11.1%	250 13.9%	350 10.9%	+100	+40.0%
Operating profit <small>% of net sales</small>	20 2.0%	20 1.1%	20 0.6%	-	-
Net income <small>% of net sales</small>	11 1.1%	2 0.1%	2 0.1%	-	-

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We have revised our business results by comprehensively considering NETTEN's participation in the Group and the progress of each of our businesses in 1Q.

We had previously forecasted sales of JPY1.8 billion, but we are now forecasting JPY3.2 billion, an increase of JPY1.4 billion. Gross profit margins are largely unchanged. The forecast was for 66.7%, but it came in at 65.6%. The gross margin has decreased slightly by about 1%, but it has remained almost unchanged, maintaining a high gross margin.

Basically, we are using all of the operating income that we have generated for the current fiscal year. As a business with low volatility in expenses and low variable costs in general, the sensitivities to increase earnings in response to sales growth are very high.

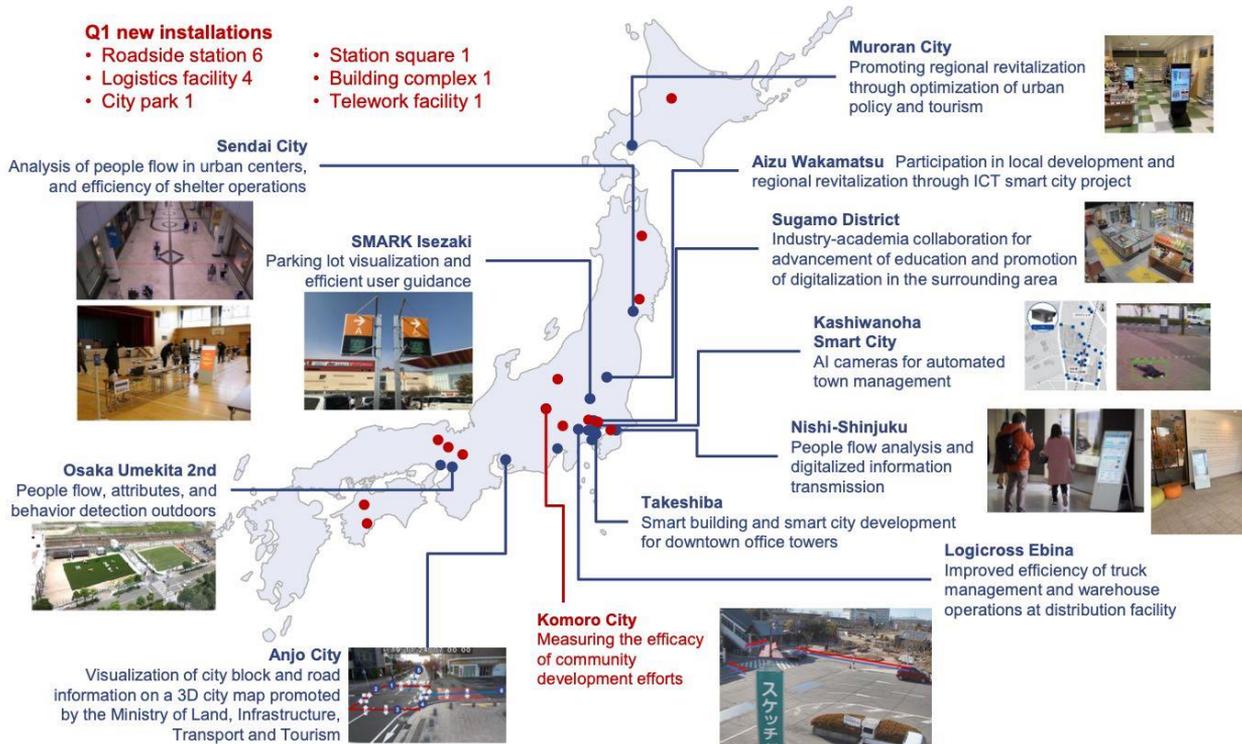
From the next fiscal year onward, we would like to anticipate an increase in organic revenues, a portion of which we have not included so far.

As for the market outlook for the fiscal year under review, I think the market will steadily increase. In addition to this increasing portion, we would like to conduct more aggressive M&A activities, and when new companies join the Group, we would like to disclose the results of these activities.

With respect to each business, the information is as disclosed in the financial statements. Now, let me explain a little about this.

Contributing in many urban development projects across Japan

👍 AI solutions are being deployed nationwide across both the private and public sectors. Examples of integration into actual facility operations are common increasingly contributing to urban development.



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As I mentioned earlier, in the progress of the Digi-Solution division's largest business, the smart city business is now being introduced in Japan. Until now, our main focus has been on aggressive sales activities, but many companies have already introduced the system, and we are receiving several inquiries a week about this area. We are planning to respond to these inquiries as much as we are able.

Cumulative number of units installed for Digi-Solution services

👍 DigiPark and DigiFlow has seen steady expansion and achieved the target of 150 unit installations by the end of Q1.



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As for the number of solution service units, we have 154 units, and we are in the process of expanding the horizontal development I mentioned earlier.

LED signages are being utilized for both facility and store announcements and for lifestyle proposals in a variety of situations

*Actual examples of installations by NETTEN Inc.



Wall



Portable



Sleeve



Pillar



In-window



Roadside



Chain stores



Government



Fire Station



Police Station

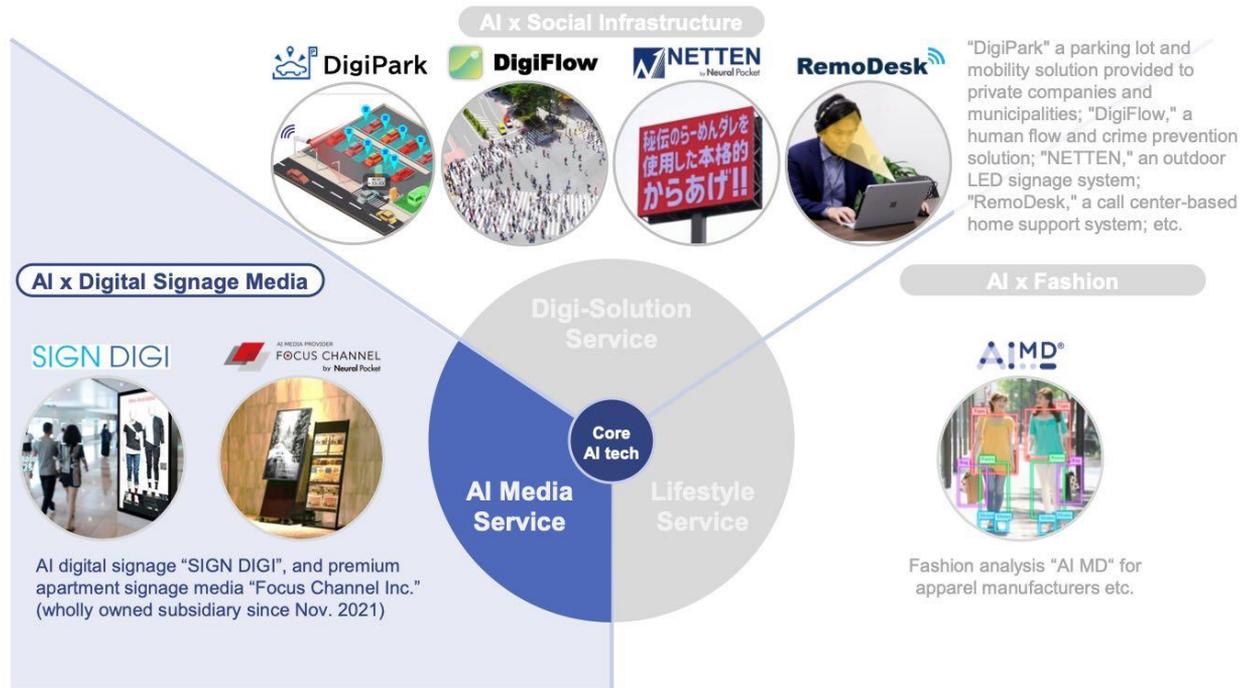
NETTEN.

What is interesting about this kind of outdoor LED vision is that it has been installed in a variety of places, as I mentioned long tail earlier. The 10,000 installations were actually in many places, including chain stores in the middle, government offices on the right, and so-called private stores on the far left.

But what we don't have here is what is called LED vision in Manhattan, New York, where a large city is entirely covered by LED vision, which is not at all what we see in Japan. We consider this to be a huge white space, but in Japan, LED vision, and digitalization have not progressed at all in the city. We are now thinking of digitizing those areas, optimizing them with AI cameras and streaming content to them.

AI Media Service

👍 We are steadily increasing the number of installed digital signages ever since Focus Channel became a subsidiary in Nov. 2021. We are actively installing new systems to become a large signage media in Japan.



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AI Media Services.

This is the Focus Channel, which uses an LCD vision system to display advertising content.

We deliver the advertiser's message to residents of high-end urban condominiums.



Apartment
Signage Ads
Market No. 1

Reaching 150K affluent consumers in Tokyo region



Number of installed units 339 | 65,000 households (as of Mar. 31, 2022)

Impression

Outstanding reach even during covid

Frequency

Located in living spaces and repeatedly appealing to residents with a total # of 140 million* views
(*Estimated number of views per add slot per month)

Targeting

High-grade condominiums where many affluent consumers reside

As you can see in the lower left-hand corner, 339 units have been installed as of the end of March, and the installation is in progress.

■ Apartment list (1/2)

ザ・東京タワーズ (シータワー)
ザ・東京タワーズ (ミッドタワー)
ザ・東京タワーズ (ミッドタワー賃貸棟)
勝どきザ・タワー
パークタワー晴海
ザ・晴海レジデンス
晴海テラス
カスターリア水天宮
カスターリア水天宮II
カスターリア東日本橋
レジディア新川
KDXレジデンス日本橋水天宮
KDXレジデンス日本橋箱崎
KDX大伝馬レジデンス
We Will!八丁堀
エスティメゾン銀座
ザ・パークハビオ日本橋箱崎町
プライムメゾン銀座東
レジディア銀座東
レジディア月島II
レジディア三越前
レジディア日本橋馬喰町
芝浦アイランドケーブタワー
グローバルフロントタワー
コスモポリス品川
パークコート赤坂ザ・タワー
カスターリア高輪
カスターリア芝公園
ブラウドフラット白金高輪
カスターリア麻布十番七面坂
レジディア芝浦
レジディア六本木櫓町公園
AQUACITY芝浦
JUN HANABI
KDXレジデンス芝公園
KDXレジデンス西麻布
KDXレジデンス南麻布
KDXレジデンス麻布イースト

KDXレジデンス白金I
KDXレジデンス白金II
M F P Rコート赤坂見附
Wat's白金
アーバンパーク麻布十番
アーバンフラッツ芝浦 (エスティメゾン芝浦)
アルブル高輪
エスティメゾン麻布永坂
クリオ三田ラ・モード
コンフォリア田町
セントラルクリップ六本木
セントラルクリップ六本木2
セントラルクリップ六本木3
ディームス麻布狸穴町 (パークハビオ麻布狸穴町)
パークアックス西麻布ステージ
パークアックス赤坂見附
パークアックス麻布仙台坂
パークハビオ赤坂タワー
プライムメゾン白金高輪
ホワイトタワー浜松町
レキシントンスクエア白金高輪
レジディアタワー乃木坂
レジディアタワー麻布十番
レジディア虎ノ門
レジディア西麻布
レジデンス白金コロレ
レジデンス白金パークフロント
赤坂氷川町レジデンス
六本木エムケイアートレジデンス
シティカレント南青山
パークキューブ東品川
カスターリアタワー品川シーサイド
カスターリア目黒かむろ坂
カスターリア戸越
カスターリア中延
ブラウドフラット戸越公園
レジディアタワー目黒不動前
レジディア南品川II

KDXレジデンス戸越
KDXレジデンス品川シーサイド
エスティメゾン大井仙台坂
エスティメゾン品川シーサイドI
エスティメゾン品川シーサイドII
エスティメゾン品川シーサイドIII
エスティメゾン東品川
オアゼ品川レジデンス
コンフォリア目黒長者丸
ザ・パークハビオ品川戸越
プライムメゾン白金台タワー
ベルファース目黒
ルーブル目黒不動前
レジディア島津山
レジディア東品川
品川シーサイドレジデンス
M F P R目黒タワー
レジディア目黒IV
コンフォリア渋谷WEST
カスターリア中目黒
プライムアーバン目黒大橋ヒルズ
CONTRAL nakameguro / コントラル中目黒
KDXレジデンス自由が丘
ザ・パークハビオ目黒
レジディアタワー中目黒
レジディア祐天寺
ブリリア有明スカイタワー
ザ・豊洲タワー
シティタワー有明
オリゾンマーレ
ビーコンタワーレジデンス
キャナルファーストタワー
ロイヤルパークス豊洲
クレヴィアアリグゼ門前仲町
レジディア亀戸
レジディア大島
レジディア木場

コンフォリア森下リバーサイド
キャナルスクエア豊洲
KDXレジデンス豊洲
M F P Rコート木場公園
UURコート錦糸町
アーデン清澄白河
エコロジー東陽町プロセンチュリー
エスティメゾン大島
コスモザ・キャナル東京イースト
コンフォリア亀戸サウス
コンフォリア豊洲
パークハビオ門前仲町
クイズ恵比寿
カスターリア初台
レジディア笹塚II
KDXレジデンス幡ヶ谷
代官山タワー
Dクラウディアイヴァン初台
KDXレジデンス恵比寿
KDXレジデンス西原
KDX代官山レジデンス
M F P R代々木タワー
エスティメゾン笹塚
コンフォリア原宿
コンフォリア笹塚
コンフォリア北参道
パークアックス代官山
パークハビオ恵比寿
パークハビオ渋谷本町レジデンス
フォレシティ富ヶ谷
プライムメゾン恵比寿
プライムメゾン渋谷
レジディア恵比寿II
レジディア広尾II
レジディア御茶ノ水III
BelleVue千代田飯田橋
CITY CURRENT大手町

■ Apartment list (2/2)

KDXレジデンス半蔵門	カスターリア北上野	レジデントブレイス西葛西	ロジエントパークス千葉中央
スベシア秋葉原	カスターリア三ノ輪	エステイメゾン代沢	パークスカイタワー・松戸
パークハビオ飯田橋	レジディア新御徒町Ⅱ	Brilliaist三軒茶屋(アイピーテラス)	レフィールオープン南行徳駅前
フォレシティー秋葉原	エステイメゾン秋葉原	Brilliaist三軒茶屋(ブラッサムテラス)	KDXレジデンス湘南台
レジディア九段下	コンフォリア浅草橋	コンフォリア駒場	コスモハイム元住吉
レジディア水道橋	ザ・パークハビオ上野レジデンス	ザ・パークハビオ三軒茶屋テラス	Kosugi 3rd Avenue The Residence
ウエストパークタワー池袋	ザ・パークハビオ上野御徒町	ベルファース三宿	THE KOSUGI TOWER
レジディアタワー上池袋(タワー棟)	パークアクシス元浅草ステージ	レジディア三軒茶屋	シティタワー武蔵小杉
レジディアタワー上池袋(パーク棟)	パークハビオ秋葉原	レジディア萩窪	シティテラス川崎鈴木町ガーデンズ
カスターリア大塚	パークハビオ秋葉原エスト	レジディア杉並方南町	シティテラス川崎鈴木町グラウンドシーズンズ
グラッドメゾン池袋壹番館	レジディア上野御徒町	ロイヤルパークス荻窪	パークシティー武蔵小杉 ステーションフォレストタワー
ba apartment	ロイヤルパークス梅島	コンフォリア東新宿ステーションフロント	パークシティー武蔵小杉 ミッドスカイタワー
コンフォリア東池袋WEST	グリーンフォレストパークアリーナ	カスターリア新宿	パークシティー武蔵小杉 ザガーデンタワーズ イースト
ザ・パークハビオ泉鳴	ロイヤルパークスシーサー	カスターリア新宿御苑	パークシティー武蔵小杉 ザガーデンタワーズ ウェスト
レジディア目白	ロイヤルパークスリバーサイド	レジディア市谷薬王寺	パークシティー武蔵小杉ザグラウンドウイングタワー
パークアクシス文京ステージ	ロイヤルパークス西新井	レジディア中落合	クラウドタワー武蔵小杉
レジディア文京本駒込	レジディア板橋	KDXレジデンス神楽坂通	ブリリア武蔵小杉
レジディア御茶ノ水	S-FORT中板橋	Dマークス西新宿タワー	ペリスタ溝の口
レジディア文京音羽	KDXレジデンス中板橋	KDXレジデンス西新宿	リエコート武蔵小杉 イーストタワー
レジディア文京音羽Ⅱ	KDX志村坂上レジデンス	KDXレジデンス東新宿	リエコート武蔵小杉 ザ・クラッシィタワー
文京グリーンコートテラス	KDXレジデンス大山	エステイメゾン東新宿	レイディアントシティ向ヶ丘遊園(イタリア街区)
文京グリーンコートビュータワー本駒込	THE ITABASHIテラス	コンフォリア新宿イーストサイドタワー	レジデンス・ザ・武蔵小杉
コンフォリア文京春日	シティテラス加賀	ザ・パークハウス西新宿タワー60	溝の口ガーデンアクアス
ベルファース本郷弓町	パークスクエア成増	レジディア市谷薬王寺	S-FORT横浜青葉台
東京サーハウス	ヒルトップスクエア	ザ・パークハビオ早稲田	ザ・パークハウス横浜大目
パークアクシス蒲田ステーションゲート	コンフォリア成増	プライムメゾン市谷山伏町	KDXレジデンス横浜関内
レジディア蒲田	KDXレジデンス上石神井Ⅱ	レジディア市ヶ谷	ザ・パークハウス横浜新子安ガーデン
レジディア蒲田Ⅳ	KDXレジデンス立川	河田町ガーデン/1号棟	ジェイグランディア日吉
レジディア多摩川	S-FORT錦糸町	河田町ガーデン/2号棟	シティテラス横浜サウス ザ・ガーデン
レジディア大森東	レジディア錦糸町	河田町ガーデン/クラブフロア	パークコート山下公園
KDXレジデンス蒲田南	レジディア錦糸町Ⅱ	カスターリア荒川	パシフィックロイヤルコートみなとみらいアーバンタワー
KDXレジデンス雪谷大塚	レクシード両国駅前	シティテラス昭島	パシフィックロイヤルコートみなとみらいオーシャンタワー
T K田園調布レディーズフラッツ	クロスレジデンス東十条	カスターリア荒川	ブライズ・ヒル
クロスレジデンス蒲田	コンフォリア滝野川	ロイヤルパークス花小金井	ロイヤルタワー横浜鶴見
コンフォリア西蒲田	コンフォリア新中野	ロイヤルパークス若葉台	コンフォリア成増グリーンサイド
フォレシティー新蒲田	クリスタルマークス	グランノア八千代台	シティタワー上尾駅前
パークキューブ上野	アクラス	ロイヤルパークス船橋	武蔵浦和SKY&GARDEN
		KDX千葉中央レジデンス	

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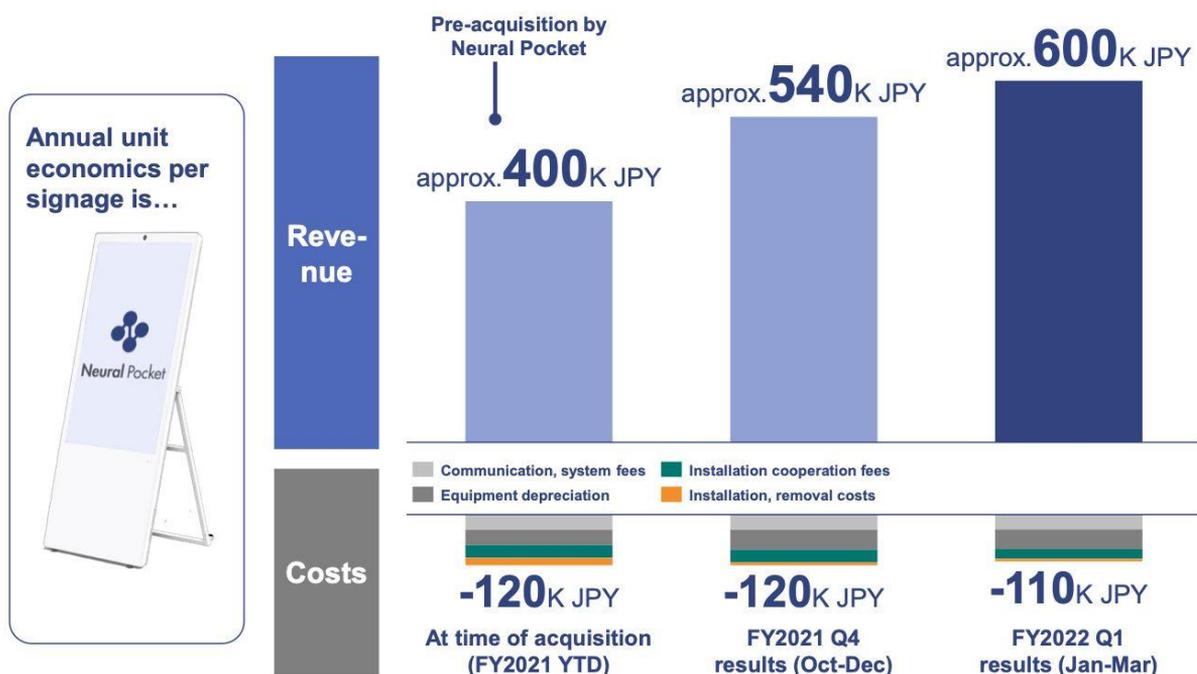
Here is the list on page 49 and 50.

I think it has increased a lot. The so-called iconic condominiums are increasingly being introduced, and the reason for this is that the level of satisfaction of the residents is increasing.

This kind of local information is actually half advertising. In fact, advertisements that do not provide local information are not viewed, and customer satisfaction is high as more and more advertisements are submitted that offer new lifestyle suggestions that residents want to see, and this type of introduction is increasing. The number of installations here is as I mentioned earlier.

Per signage annualized unit economics

👍 Average revenue per signage temporarily increased to coincide with the busy advertising season at the end of March.



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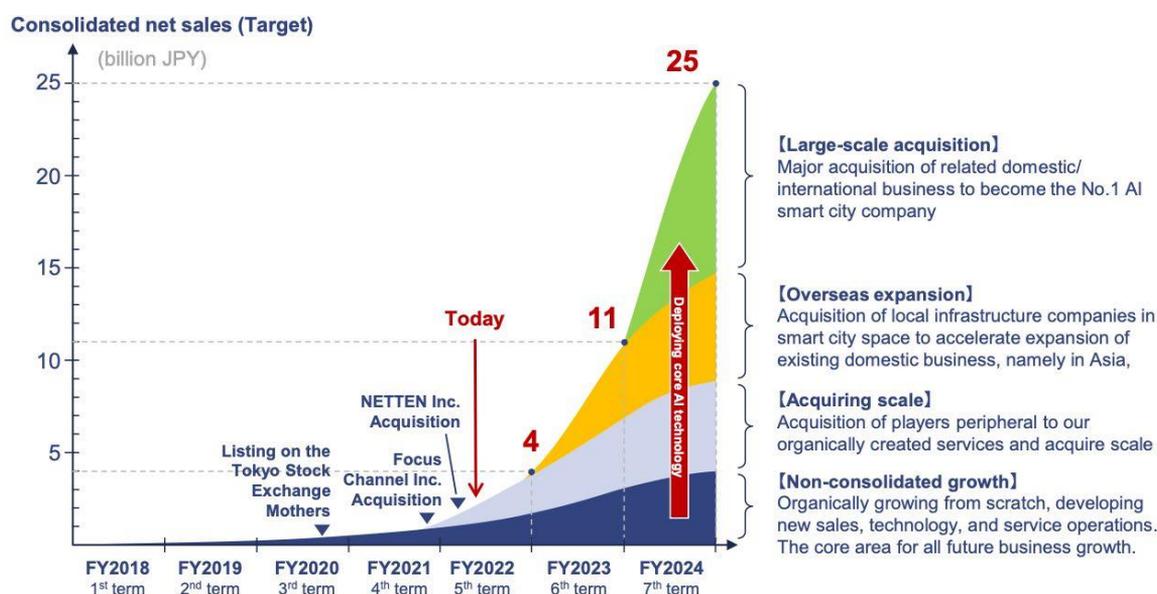
The unit price per unit is now JPY600,000, but it is temporarily higher in 3Q, January, February, and March of this year because of the timing of year-end budget cuts by large companies. I think it will level out a bit more, but I think we should generally maintain this area of the middle of several hundreds of thousands from now on.

We have noticed that at this very moment, assets are coming rather close to digital signage wind-speed wise. This has been our theme for the past six months, and the reason why is purely because it is growing and is essential to our AI technology, and the market continues to grow.

However, compared to cities such as Shanghai and Shenzhen in China and New York in the US, Japan is by far the slowest in the progress of digital signage.

3-year business growth target

👍 We aim to achieve growth by leveraging our core edge AI technologies and services, and acquiring related services in Japan and overseas in an orderly manner. In addition to organic business growth, we plan to execute roughly two M&As per year creating synergies that will contribute to business expansion.



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There will be no change in the medium-term leap forward, as I have already told you.

The M&A strategy will remain the same. We are promoting the project with the goal of achieving sales of JPY4 billion this fiscal year. We are hoping to achieve annual differential sales of about JPY6 to JPY7 billion this year on a year-end run-rate basis, which would make it easier to see next year's JPY11 billion.

The remaining has now been revised to JPY3.2 billion, but we would like to consider the implementation of the remaining JPY0.8 billion while monitoring the situation. That is all.

Question & Answer

Moderator[M]: We will now move on to the Q&A session, with Mr. Shigematsu, Chief Executive Officer, and Mr. Tane, Director, Chief Financial Officer.

Now, Mr. Kobayashi of Mizuho Securities.

Kobayashi [Q]: Thank you for the opportunity to ask questions. My name is Kobayashi from Mizuho Securities. I would like to ask two major questions. The first point is about NETTEN. First, I would like to ask about the progress on PMI. I would like to ask you about the education of your employees who will understand your technology and propose solutions, and how you plan to achieve these results.

Shigematsu [A]: Alright. PMI has already been working on a 100-day plan, and the 100th day will soon be over, and the conclusion is that we are doing extremely well.

I was surprised at how much partnerships exist. NETTEN has mainly sold long-tail signage, but we have not made any system proposals to the head office and in fact, we have been refusing to offer any system proposals. In the past, for better or worse, our company's strength has been the centralized leadership of the head office, but now we are seeing short-term synergies being generated.

In addition, we are now working on introducing AI and converting the content system to AI, and the technological integration is going very smoothly. Our edge devices are already working in conjunction with this LED vision system, and the conversion of NETTEN's LED vision system to AI has been completed.

We are in the process of starting to sell more and more of these products.

Kobayashi [Q]: I understand. Thank you very much. On another point, I'd like to understand the mix-up in the upward revision of the full-year plan. I think the amount is JPY3.2 billion from the original JPY1.8 billion, and JPY1.4 billion will be raised as a subtraction. Is this simply the portion of NETTEN that was acquired, or are the synergies between NETTEN and your company taken into account to some extent? I would appreciate it if you could give me a little more detail about the mix-up. Thank you.

Shigematsu [A]: Alright. As for this year, there is actually a lot of mix-up.

The NETTEN part is more of a so-called long-tail LED sales business, which is a wonderful business, and we are not thinking of making any major changes to it, but we have a lot of resources within NETTEN that we will use for AI signage sales and development. We are also putting people in charge of AI signage sales and development.

Conversely, we are now selling our Digi-Solutions with NETTEN panels attached, and the boundary between the two is rapidly disappearing.

So, as far as the budget is concerned, we have reconfigured it once. As a result, it looks like we added JPY1.4 billion, but as for the content of that, I think it has changed. I can't give you the details of how many million for which are, but we are looking at JPY1.4 billion for the fiscal year under review, and from next year onward, these will be combined and sold as a larger AI system, and we are currently revising our business results. I'm sorry, I can't give you all the details of the segment information and what it is, but we are working on a projection of JPY1.4 billion with a mixture of various things.

Kobayashi [M]: Yes, sir. Thank you very much. That's all from me.

Moderator [M]: Thank you very much. Does anyone have any other questions? Now, there being no further questions, I will conclude the question-and-answer session.

Thank you for participating in today's financial results briefing session for 1Q of fiscal year ending December 31, 2022, of Neural Pocket. I would like to adjourn the meeting.

[END]

Document Notes

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*