

November 15th, 2021

Company Name	Kudan Inc.	
Representative	CEO	Daiu Ko
	(Securities code: 4425 TSE Mothers)	
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The transcript of the question and answer in the financial report presentation meeting for institutional investors and analysts is now available online

Kudan Inc. (henceforth in this document as “Kudan”) held the financial report presentation for institutional investors and analysts today. In order to disclose information to investors in a timely manner, the English-translated transcript of the question and answer session is available in this release.

【FY2022 2Q financial report presentation meeting for institutional investors and analysts】

1. Date: Monday, November 15th, 2021
2. Speakers: Daiu Ko, CEO
Taro Murai, Vice President and COO
Kohei Nakayama, Vice President and CFO

▼▼Financial report presentation video can be viewed from below (Japanese only)▼▼

<https://youtu.be/Pc1YrNMtxXk>

▼▼Financial report presentation transcript can be viewed from below (English)▼▼

<https://contents.xj-storage.jp/xcontents/AS02977/77d10a34/1bea/48b3/a892/1308af1c9fd9/140120211111433380.pdf>

▼▼Supplementary documentation to the financial report for FY2022 2Q can be viewed from below (English)▼▼

<https://contents.xj-storage.jp/xcontents/AS02977/6d2db85b/d96f/485e/9ad0/792b7bc56072/140120211111431973.pdf>

【List of questions and answers】

1. In the past explanatory materials, you explained that the average commercial license fee for the 2030 target is 200 million yen. Has there been any change in your assumption here?

There is no change at this time in the target of average commercial license fees disclosed in past explanatory materials, and in principle, we expect several millions of yen to several tens of millions of yen at the initial phase of commercialization, and as product sales expand, we are aiming to generate revenue in hundreds of millions of yen per project.

2. Why is the significant increase in partnerships not linked to revenue?

As a result of the increase in partnerships, the number of projects, especially high quality projects toward customers' commercialization, has been increasing, but this is more of an indirect leading indicator for revenue.

As a leading indicator that is more directly linked to future revenue, we have disclosed the number of ongoing projects and the schedule for customers' commercialization this time, and we would like you to refer to them for future business progress. In addition, as the development milestones of these projects progress, a certain amount of increase in remuneration is also occurring on average, which we believe is leading to the current recovery trend in revenue.

3. I have heard that you have development projects that are expected to be commercialized in the near future. When do you think you will be going into the black for the quarter?

First of all, as for the timing of the turnaround that is related to the development projects that are expected to be commercialized, we are not looking at the revenue on a quarterly basis, but basically the revenue on an annual basis, which we believe is the most indicative of the revenue of our business. In this context, as for the schedule of the turnaround, we do not disclose the schedule itself, but we expect that the turnaround will coincide with the customers' commercialization. Specifically, as we have explained in the past, we are currently in the preparation phase of our business, focusing on projects and customers with high profitability in the future, and we believe that this will become a turning point when our customers commercialize their products, and we will move into the reaping phase of our business. Please refer to the schedule for our customers' commercialization and the number of ongoing projects that support the schedule, which we disclosed as leading indicators, to see the progress of our business in the future.

4. Regarding the differences in the certainty of each project on p.18 of the material, are there any specific milestone differences?

Milestones are generally more advanced for projects with "high" certainty, but the pattern of milestones and the number of milestones are not one-to-one depending on the high, medium or low certainty.

5. If a customer product is commercialized, will Kudan receive licensing income based on the number of products sold?

In the case of commercialization, the revenue model will basically be based on the customer's business model, and we will charge in a way that makes it best for us to scale our revenue. For example, if the customer is selling a device per unit such as a robot that incorporates our technology, we charge a royalty per unit, if the customer is selling software, we charge a license fee based on

the number of software installations, and in addition, if our software is used to process data, and the customer is charged for that data, then it is license revenue, such as a pay-as-you-go fee based on the amount of data.

6. What is the status of the personnel at Kudan? Please tell us focusing on the number of engineers. Also, what measures are you taking to prevent personnel turnover?

As for the number of engineers, along with Artisense becoming a wholly owned subsidiary, the total number of engineers in the group is about 30. This represents that we have secured the largest numbers of engineers in the world and one of the world's top teams of engineers. With regard to the prevention of personnel turnover, we believe that we have been able to minimize the turnover as a result of the acquisition by making Artisense a wholly owned subsidiary through a phased corporate integration and by providing appropriate incentives to Artisense and Kudan members. We plan to continue these measures in the future.

7. Have there been any changes in the certainty of each product commercialization project compared to the beginning of the fiscal year?

The certainty of all four projects with the high certainty level has been becoming higher compared to the beginning of the fiscal year. There are some projects that have moved up from "medium" to "high" certainty, and there are also some projects with already being high certainty that have become higher certainty due to progress of milestones achieved through customers' own development or our appropriate support.

8. How does your revenue forecast for this fiscal year include the realization of customers' commercialization in the current fiscal year?

There is a possibility of customers' commercialization in the current fiscal year, but it may be in the next fiscal year, so we have not included it in our revenue forecast for the current fiscal year conservatively.

9. To what extent should we assume that the realization of customers' commercialization projects will contribute to revenue in the next fiscal year and the next after next?

Currently, we can see that at least 10% of our business will be in the next fiscal year and 15% in the year after that. Overall, the percentage of customers' commercialization will increase, but the percentage is expected to increase gradually as we still continue to actively build up evaluation and development projects, which will be planting seeds.

(Supplementary Note: We will continue to aim to further increase commercial license fees by sales expansion of customer's products scheduled for commercialization in the current and next fiscal years and by increasing the number of commercialization projects going forward.)

10. You mentioned the third acquisition and possible impairment with becoming Artisense as a wholly owned subsidiary. Please tell us about the impact on PL and BS at that time, including the specific amounts.

As you can see in the presentation materials, Artisense has become a wholly owned subsidiary of Kudan in October of this year for accounting purposes, so Artisense's PL from October will be included in Kudan's consolidated financial statements from January of the next year. There is a 3-month gap between the fiscal years of Kudan and Artisense, so this is the way it will be handled. In the disclosure document at the time of the resolution for the early acquisition of Artisense, it was disclosed that Artisense's revenue for FY2020 ending December was approximately 60 million yen and operating costs were approximately 400 million yen. This year, we have been working to improve cost efficiency to the extent that it does not interfere with our business, so we are estimating annual costs of 300 to 350 million yen at this point. From the cost perspective, we hope you understand that three months of this cost will be included in Kudan's consolidated financial statements.

As for the possibility of impairment, since this is an assessment of the impairment of shares acquired in this October, the assessment of impairment will be made after January and February of next year, when the third quarter financial results for October through December are audited and disclosed. As with the previous fiscal year's impairment, there is a possibility that accounting judgments will be made based on some conservative future estimates. We will make a decision after discussing with the auditor and disclose the information as soon as it becomes clear.

(Supplementary Note: The amount of shareholders' equity will increase according to the acquisition of Artisense shares in exchange for the issuance of new shares of Kudan, and even if the impairment loss is recognized, it will be deducted from the amount of shareholders' equity after this increase.)

※If you have any inquiries regarding the contents of the financial report presentation, please feel free to contact us at Kudan's contact form below. Also, if you would like to have an interview with us, please let us know as well.

■ Company Details

Name: Kudan Inc.

Securities Code: 4425

Representative: CEO Daiu Ko

■ For more details, please contact us from [here](#).