

Consolidated Financial Results for the Six Months Ended June 30, 2020 [Japanese GAAP]



August 14, 2020

Company name: Modalis Therapeutics Corporation

Stock exchange listing: Tokyo Stock Exchange

Code number: 4883

URL: <https://www.modalistx.com/jp/>

Representative: Haruhiko Morita, President and Representative Director

Contact: Naoki Kobayashi, CFO and Executive Officer

Phone: +81-3-6822-4584

Scheduled date of filing quarterly securities report: August 14, 2020

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for securities analysts and institutional investors)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended June 30, 2020 (January 1, 2020 to June 30, 2020)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2020	337	-	38	-	29	-	26	-
June 30, 2019	-	-	-	-	-	-	-	-

(Note) Comprehensive income: Six months ended June 30, 2020: ¥26 million [-%]

Six months ended June 30, 2019: ¥- million [-%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2020	1.07	-
June 30, 2019	-	-

(Notes)

1. The Company has not prepared the consolidated financial statements for the six months ended June 2019. Accordingly, no figures are shown for the six months ended June 30, 2019 and no percentage changes are shown for the six months ended June 30, 2020.

2. Although the Company has dilutive shares, diluted earnings per share are not indicated because the Company's shares were not listed and the average share price is not available for the period under review.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of June 30, 2020	3,961	3,868	97.7
As of December 31, 2019	3,938	3,842	97.6

(Reference) Equity: As of June 30, 2020: ¥3,868 million

As of December 31, 2019: ¥3,842 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended December 31, 2019	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00
Fiscal year ending December 31, 2020	-	0.00			
Fiscal year ending December 31, 2020 (Forecast)			-	0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2020 (January 1, 2020 to December 31, 2020)

	Operating revenue	Operating income	Ordinary income	Profit attributable to owners of parent	Basic earnings per share
Full year	Million yen 1,100 or over	Million yen 350 or over	Million yen 300 or over	Million yen 250 or over	Yen 9.63 or over

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

- (1) Changes in significant subsidiaries during the six months ended June 30, 2020 (changes in specified subsidiaries resulting in changes in scope of consolidation): No
Notes on changes in significant subsidiaries during the six months ended June 30, 2020
- (2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No
Notes on accounting policies adopted specially for the preparation of quarterly consolidated financial statements
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: NoNotes on changes in accounting policies

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

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

June 30, 2020: 25,100,000 shares

December 31, 2019: 25,100,000 shares

2) Total number of treasury shares at the end of the period:

June 30, 2020: - shares

December 31, 2019: - shares

3) Average number of shares during the period:

Six months ended June 30, 2020: 25,100,000 shares

Six months ended June 30, 2019: - shares

Notes on total number of issued shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecast and other forward-looking statements herein are based on information available and certain assumptions judged to be reasonable as of the date of publication of this document. They do not represent a commitment from the Company that they will be achieved. Actual results may differ significantly from these forecast due to a wide range of factors. Please refer to page 3 of the attachment for matters related to the earnings forecast.

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	2
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	5
(3) Quarterly Consolidated Statements of Cash Flows	7
(4) Notes to Quarterly Consolidated Financial Statements	8
(Notes on going concern assumption)	8
(Notes in the case of significant changes in shareholders' equity)	8
(Segment information)	8
(Significant subsequent events)	8

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Business Results

The Japanese economy during the six months ended June 30, 2020 was hit by the COVID-19 pandemic, with restrictions on economic activities and social life. It is expected to take a long time for the economy to recover, and it is getting harder and harder to foresee the future.

Against this backdrop, the Group, in its fifth year of establishment in 2016, has promoted its business proactively under the corporate philosophy “Every Life Deserves Attention,” aiming to provide epoch-making therapeutic agents for genetic disorders, most of which are rare diseases.

Capitalizing on the advantages of the CRISPR-GNDM[®] platform that is the technology base, the Group has adopted a hybrid business model to create therapeutic agents for genetic disorders for achieving “wide-range developments” and “value chain supplement,” combining: “collaboration pipelines” where the Group releases the CRISPR-GNDM[®] technologies, or the technology platform, to partners that develop therapeutic agents for diseases of their choice at their expense; and “internal pipelines” where the Group uses the CRISPR-GNDM[®] technologies, chooses diseases to be targeted, and develops the therapeutic agents at the Group’s expense. During the six months ended June 30, 2020, five collaboration pipelines and two internal pipelines were in progress. Thanks to the steady progress of joint R&D work with partners for a plurality of pipelines, we earned a development milestone income for license for a pipeline, a new upfront payment, and collaborative R&D milestone income for two pipelines.

As a result, for the six months ended June 30, 2020, operating revenue amounted to ¥337,000 thousand, operating income to ¥38,823 thousand, ordinary income to ¥29,869 thousand, and profit attributable to owners of parent to ¥26,865 thousand.

The Group consists of a single business segment of developing therapeutic agents for genetic disorders. Accordingly, the Company omits statements of segment information.

(2) Explanation of Financial Position

a. Status of Assets, Liabilities and Net Assets

(Current Assets)

Total current assets at the end of the second quarter of the fiscal year under review decreased by ¥770,780 thousand from the end of the previous fiscal year to ¥3,104,193 thousand. This is mainly attributable to a decrease in cash and deposits by ¥1,121,633 thousand despite an increase in accounts receivable - trade by ¥338,800 thousand.

(Non-current Assets)

Total non-current assets at the end of the second quarter of the fiscal year under review increased by ¥793,526 thousand from the end of the previous fiscal year to ¥856,980 thousand. This is mainly attributable to right to use patent of ¥798,802 thousand.

(Current Liabilities)

Total current liabilities at the end of the second quarter of the fiscal year under review decreased by ¥6,141 thousand from the end of the previous fiscal year to ¥84,998 thousand. This is mainly attributable to a decrease in income taxes payable by ¥9,084 thousand.

(Non-current Liabilities)

Total non-current liabilities at the end of the second quarter of the fiscal year under review increased by ¥2,434 thousand from the end of the previous fiscal year to ¥7,179 thousand. This is attributable to an increase in deferred tax liabilities by ¥2,434 thousand.

(Net Assets)

Total net assets at the end of the second quarter of the fiscal year under review increased by ¥26,453 thousand from the end of the previous fiscal year to ¥3,868,995 thousand. This is mainly attributable to an increase in retained earnings by ¥26,865 thousand thanks to the posting of profit.

b. Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as “cash”) at the end of the second quarter of the fiscal year under review amounted to ¥2,735,601 thousand, down by ¥1,121,633 thousand from ¥3,857,235 thousand at the previous fiscal year end. The status of respective cash flows and key factors are as follows.

(Cash Flows from Operating Activities)

Net cash used in operating activities during the six months ended June 30, 2020 amounted to ¥304,310 thousand. This is mainly attributable to an increase in trade receivables by ¥338,800 thousand.

(Cash Flows from Investing Activities)

Net cash used in investing activities during the six months ended June 30, 2020 amounted to ¥814,728 thousand. This is mainly attributable to the posting of purchase of intangible assets of ¥814,481 thousand.

(Cash Flows from Financing Activities)

Net cash used in financing activities during the six months ended June 30, 2020 amounted to ¥1,827 thousand. This is mainly attributable to the posting of payments of listing expenses of ¥1,766 thousand.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

No revisions have been made to the full year consolidated financial results forecast for the year ending December 2020 disclosed earlier on the “Notice of Financial Information in Conjunction with Listing on the Tokyo Stock Exchange Mothers Market.” Please note that the financial results forecast and other forward-looking statements herein are based on information available as of the date of publication of this document. Actual results may differ from these forecast due to changes in situations in the future.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	3,857,235	2,735,601
Accounts receivable - trade	6,600	345,400
Other	11,139	23,191
Total current assets	3,874,974	3,104,193
Non-current assets		
Property, plant and equipment	48,954	44,308
Intangible assets		
Right to use patent	—	798,802
Total intangible assets	—	798,802
Investments and other assets	14,499	13,869
Total non-current assets	63,453	856,980
Total assets	3,938,428	3,961,173
Liabilities		
Current liabilities		
Income taxes payable	21,820	12,735
Other	69,320	72,262
Total current liabilities	91,140	84,998
Non-current liabilities		
Deferred tax liabilities	4,744	7,179
Total non-current liabilities	4,744	7,179
Total liabilities	95,885	92,177
Net assets		
Shareholders' equity		
Share capital	1,300,000	1,300,000
Capital surplus	2,621,735	2,621,735
Retained earnings	(79,112)	(52,246)
Total shareholders' equity	3,842,623	3,869,488
Accumulated other comprehensive income		
Foreign currency translation adjustment	(80)	(492)
Total accumulated other comprehensive income	(80)	(492)
Total net assets	3,842,542	3,868,995
Total liabilities and net assets	3,938,428	3,961,173

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2020
Operating revenue	337,000
Operating expenses	
Research and development expenses	204,083
Selling, general and administrative expenses	94,093
Total operating expenses	298,176
Operating income	38,823
Non-operating income	
Subsidy income	79
Other	22
Total non-operating income	101
Non-operating expenses	
Listing expenses	5,414
Foreign exchange losses	3,580
Other	60
Total non-operating expenses	9,055
Ordinary income	29,869
Profit before income taxes	29,869
Income taxes - current	477
Income taxes - deferred	2,525
Total income taxes	3,003
Profit	26,865
Profit attributable to owners of parent	26,865

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2020
Profit	26,865
Other comprehensive income	
Foreign currency translation adjustment	(412)
Total other comprehensive income	(412)
Comprehensive income	26,453
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	26,453

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended June 30, 2020
Cash flows from operating activities	
Profit before income taxes	29,869
Depreciation	19,814
Interest and dividend income	(19)
Subsidy income	(79)
Listing expenses	5,414
Decrease (increase) in trade receivables	(338,800)
Increase (decrease) in accounts payable - other	24,925
Increase (decrease) in accrued expenses	55
Increase (decrease) in accrued consumption taxes	(25,130)
Other, net	(19,481)
Subtotal	(303,431)
Interest and dividends received	19
Subsidies received	79
Income taxes paid	(977)
Net cash provided by (used in) operating activities	(304,310)
Cash flows from investing activities	
Purchase of property, plant and equipment	(242)
Purchase of intangible assets	(814,481)
Other, net	(5)
Net cash provided by (used in) investing activities	(814,728)
Cash flows from financing activities	
Payments of listing expenses	(1,766)
Other, net	(60)
Net cash provided by (used in) financing activities	(1,827)
Effect of exchange rate change on cash and cash equivalents	(766)
Net increase (decrease) in cash and cash equivalents	(1,121,633)
Cash and cash equivalents at the beginning of period	3,857,235
Cash and cash equivalents at the end of period	2,735,601

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the case of significant changes in shareholders' equity)

There is no relevant information.

(Segment information)

The Group consists of a single business segment of developing therapeutic agents for genetic disorders.

Accordingly, the Company omits statements of segment information.

(Significant subsequent events)

(Issuance of new shares by means of public offering)

The Company's shares were listed on the Tokyo Stock Exchange Mothers market effective August 3, 2020. At the time of the listing, the Company, at the Board of Directors meetings held on June 26, 2020 and July 10, 2020, resolved to issue new shares as follows, and the payments were completed on July 31, 2020.

As a result, the Company's share capital was ¥2,459,200 thousand and total number of issued shares was 27,200,000 as of July 31, 2020.

(1) Offering method	Public offering (book-building method)
(2) Type and number of shares offered	2,100,000 common shares
(3) Price of issue	¥1,200 per share
(4) Subscription price	¥1,104 per share
(5) Payment date	July 31, 2020
(6) Amount added to common shares	¥552 per share
(7) Total issue amount	¥2,520,000 thousand
(8) Total subscription amount	¥2,318,400 thousand
(9) Total amount added to common shares	¥1,159,200 thousand
(10) Use of proceeds	The proceeds will be used as: funds required for promotion of research and development in internal pipeline, including projects to be newly started in the future; and funds required for increasing the floor area of facilities of the US subsidiary (incremental rents and moving expenses).

(Issuance of new shares by means of third-party allotment)

The Company's shares were listed on the Tokyo Stock Exchange Mothers market effective August 3, 2020. At the time of the listing, the Company, at the Board of Directors meetings held on June 26, 2020 and July 10, 2020, resolved to issue new shares through a third-party allotment to Mizuho Securities Co., Ltd. in connection with the offering of the shares through over-allotment.

(1) Offering method	Third-party allotment (over-allotment method)
(2) Type and number of shares offered	405,000 common shares
(3) Allotment price	¥1,104 per share
(4) Payment date	September 2, 2020
(5) Amount added to common shares	¥552 per share
(6) Total allotment amount	¥447,120 thousand
(7) Total amount added to common shares	¥223,560 thousand
(8) Allottee	Mizuho Securities Co., Ltd.
(9) Use of proceeds	The proceeds will be used as: funds required for promotion of research and development in internal pipeline, including projects to be newly started in the future; and funds required for increasing the floor area of facilities of the US subsidiary (incremental rents and moving expenses).