Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2020 [Japanese GAAP]

February 10, 2021

Company name: PeptiDream Inc. Tokyo Stock Exchange
Stock code: 4587 URL https://www.peptidream.com/
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Scheduled date of Ordinary General Meeting of Shareholders: March 25, 2021
Scheduled filing date of securities report: March 26, 2021
Scheduled starting date of dividend payments: —
Supplementary briefing materials on financial results: No
Explanatory meeting on financial results: Yes (for securities analysts and institutional investors)

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

1. Financial Results for the Fiscal Year Ended December 31, 2020 (January 1, 2020 to December 31, 2020)

(1) Operating results (% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal Year ended December 31, 2020	11,677	-	6,991	-	6,976	-	4,448	-
Fiscal Year ended December 31, 2019	1,037	-	(887)	-	(706)	-	(488)	-

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year ended December 31, 2020	35.40	34.26	23.4	31.6	59.9
Fiscal Year ended December 31, 2019	(3.90)	-	(2.9)	(3.7)	(85.5)

(Reference) Equity in earnings (losses) of affiliates Fiscal Year ended December 31, 2020: (729) million yen
Fiscal Year ended December 31, 2019: (140) million yen

(Note) From the fiscal year ended December 31, 2019, PeptiDream has changed its fiscal-year end from June 30 to December 31. As the financial results for the fiscal year ended December 31, 2019 are for a six-month period, changes from the previous corresponding period are not presented for the fiscal years ended December 31, 2019 and 2020.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	26,266	21,217	80.5	168.10
As of December 31, 2019	17,817	16,978	94.8	134.97

(Reference) Equity As of December 31, 2020: 21,132 million yen
As of December 31, 2019: 16,893 million yen

(3) Cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
Fiscal Year ended December 31, 2020	1,732	(1,200)	(237)	7,149
Fiscal Year ended December 31, 2019	241	(138)	-	6,986

2. Payment of Dividends

	Annual dividends					Total dividends (Annual)	Dividend payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal Year ended December 31, 2019	-	-	-	0.00	0.00	-	-	-
Fiscal Year ended December 31, 2020	-	0.00	-	0.00	0.00	-	-	-
Fiscal Year ending December 31, 2021 (forecast)	-	0.00	-	0.00	0.00		-	

3. Financial Forecasts for the Fiscal Year Ending December 31, 2021 (January 1, 2021 to December 31, 2021)

	Net sales	Operating income	Ordinary income	Net income
	Million yen	Million yen	Million yen	Million yen
Fiscal Year ending December 31, 2021	11,000 or more	5,000 or more	5,000 or more	3,600 or more

[Notes]

(1) Changes in accounting policies, changes in accounting estimates and retrospective restatements

1) Changes in accounting policies due to amendment to the accounting standards, etc.	:	None
2) Changes in accounting policies other than 1) above	:	None
3) Changes in accounting estimates	:	None
4) Retrospective restatements	:	None

(2) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	As of December 31, 2020	125,910,400 Shares	As of December 31, 2019	125,310,400 Shares
2) Number of treasury stock at the end of the period	As of December 31, 2020	193,694 shares	As of December 31, 2019	143,452 shares
3) Average number of shares during the period	Fiscal Year ended December 31, 2020	125,668,094 shares	Fiscal Year ended December 31, 2019	125,166,948 shares

(Note) The number of treasury shares at the end of the period includes shares in the Company held by the Custody Bank of Japan, Ltd. (Trust Account E) (143,400 shares as of December 31, 2019 and 193,600 shares as of December 31, 2020). In addition, the shares in the Company held by the Custody Bank of Japan, Ltd. (Trust Account E) are included in treasury shares excluded from calculating the average number of shares during the period (143,400 shares for the fiscal year ended December 31, 2019 and 173,398 shares for the fiscal year ended December 31, 2020).

*These financial results are outside the scope of audit by a certified public accountant or an audit firm.

*Explanation on the appropriate use of operating forecasts and other special instructions

(Caution regarding forward-looking statements)

Financial forecasts and other statements regarding the future presented in these materials are based on information currently available and certain assumptions deemed to be reasonable and are not meant to be taken as commitment of the Company to achieve such results. Actual performance may differ substantially due to various factors.

(Caution regarding forward-looking statements)

The Company plans to hold an explanatory meeting on financial results for institutional investors on February 12, 2021 and intends to publish the presentation materials on its website on the same day.

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1. Analysis of Operating Results and Financial Position

(1) Overview of Business Results for the Fiscal Year Under Review

During the twelve months ended December 31, 2020 (from January 1, 2020 to December 31, 2020), the Company continued to make excellent progress in leveraging the PDPS (Peptide Discovery Platform System) technology, its proprietary drug finding platform, across its three business segments; 1) Collaboration Discovery and Development, 2) PDPS Technology Transfer, and 3) In-House/Strategic Discovery and Development.

【The Company's business strategy】		Partners at the end of the fiscal year under review
1	Collaboration discovery and development agreements	20
2	PDPS non-exclusive technology license agreements	9
3	In-house/ Strategic partner agreements	13

As of December 31, 2020, the Company's pipeline consisted of 120 discovery & development programs (representing an increase of 13 programs from the end of the prior fiscal year ending December 31, 2019).

The below table is a snapshot of the number of program(s) for each drug discovery approach.

【Number of programs for each drug discovery approach】	As of December 31, 2020
Peptide drugs	81
Small molecule drugs	
Peptide drug conjugates ("PDCs")	39
Total	120

The below table is a snapshot of the number of program(s) currently at each stage of the discovery and development process, compared to the end of the prior fiscal year.

【Number of programs at each stage of the discovery and development process】	As of December 31, 2019	As of December 31, 2020
Target Validation-to-Hit Stage	43	39
Hit-to-Lead Stage	43	58
Lead-to-GLP-Tox Stage	11	13
GLP-Tox-to-IND Stage	8	8
Phase I	2	2
Phase II	0	0
Phase III	0	0
Total	107	120

The figures in the above table include programs in the Collaboration Discovery and Development segment and the In-House/Strategic Discovery and Development segment, and DO NOT include programs in the PDPS Technology Transfer segment.

In the Collaboration Discovery and Development segment; On December 22, 2020, the Company announced a collaborative research and exclusive license agreement with Takeda Pharmaceutical Company Limited ("Takeda") to develop peptide drug conjugates for neuromuscular diseases. Despite advances in the understanding of neuromuscular diseases, the broad biodistribution required to target key tissues throughout the body that contribute to disease remains a key challenge for drug development. The agreement aims to address these challenges by conjugating peptides developed by PeptiDream and JCR Pharmaceuticals Co., Ltd. that bind to the transferrin receptor to specific drug payloads selected by Takeda to improve their profile of tissue distribution for treating neuromuscular diseases. Under the terms of the agreement, PeptiDream will receive an upfront

payment from Takeda. PeptiDream may also receive milestone payments based on the achievements of specified pre-clinical research and clinical trial achievements. Financial terms of the collaboration were not disclosed.

On November 24, 2020, the Company announced the achievement of a development milestone in its discovery alliance with Janssen. The milestone is for the identification of potential collaboration candidates meeting the pre-defined candidate criteria, representing the 2nd discovery program between the two companies for which PeptiDream has achieved this milestone. This achievement entitles PeptiDream to receive a milestone payment per the 2017 research collaboration and license agreement between both companies. PeptiDream is eligible for additional future pre-clinical and clinical development milestones, as well as royalties on future sales, as the discovery and development programs continue to advance.

The Company continues to receive various R&D support payments from its big pharma discovery and development partners, in addition to being eligible for potential pre-clinical and clinical milestones payments as the programs advance, as well as being eligible for commercial sales milestones and royalties on net sales of any commercialized products. The Company looks forward to announcing future updates as additional milestones are met, and as allowed by the partner companies. In addition, the Company continues to receive considerable interest from multiple big pharma companies interested in partnering with the Company on discovery and development programs.

In the PDPS Technology Transfer segment; On December 23, 2020, the Company announced the non-exclusive license of its PDPS technology to Janssen Pharmaceutica NV, one of the Janssen Pharmaceutical Companies of Johnson & Johnson, marking the 8th company to non-exclusively license the Company's PDPS technology. The companies will continue to work to identify and optimize candidates into therapeutic products using the Company's PDPS technology, under the prior collaboration agreement entered into in April 2017.

On December 17, 2020, the Company announced the non-exclusive license of its Automated PDPS Platform to Taiho Pharmaceutical, marking the 9th company to non-exclusively license the Company's PDPS technology, and the 1st company to non-exclusively license solely the automated PDPS technology platform. Additionally, the Company and Taiho Pharmaceutical will enter into a separate sales agreement related to the supply of reagents required for the operation of the automated PDPD platform.

As of December 31, 2020, the Company has non-exclusively licensed its PDPS technology to 9 companies; Bristol-Myers Squibb (2013), Novartis (2015), Lilly (2016), Genentech (2016), Shionogi (2017), MSD (U.S.-Merck & Co. Kenilworth, NJ, USA)(2018), MiraBiologics (2018), Taiho Pharmaceutical (2020), and Janssen (2020).

In accordance with all PDPS technology license agreements, the Company is not informed as to what specific discovery and development programs are being prosecuted by the licensee company until certain initial pre-clinical milestones are achieved. The Company continues to receive various technology license and management payments from the licensee companies, in addition to potential preclinical and clinical milestone payments as programs advance. In addition, the Company continues to receive interest from multiple companies interested in licensing the PDPS technology.

In the In-House/Strategic Discovery and Development segment; The Company continues to expand the number of In-House/Strategic Discovery and Development programs. The goal of these efforts is to develop the programs to at least the pre-Phase I stage, or potentially post-Phase I/II stage, before seeking to license these programs out to big pharma companies, leveraging the Company's existing network of partners, for significantly higher financials than can be attained from standard discovery and development deals. The Company has continually been expanding its capabilities in turning hit candidates identified from the PDPS technology into 1) peptide therapeutics, 2) peptide drug conjugates ("PDCs"), and 3) small molecule therapeutics. Programs being developed with Strategic partners, Strategic partners being companies that bring proprietary technology/know-how to combine with the Company's, are under a cost-sharing agreement, in which the costs of discovery and development are equally shared, allowing for the Company to have a far larger share in the program and future revenues if successful.

The Company continues to pursue a number of in-house fully-owned programs, including efforts toward the discovery and development of therapeutic peptides capable of neutralizing both the current SARS-CoV-2 virus (Coronavirus Disease "COVID19") and potentially any future Coronavirus ("CoV") outbreaks that may occur, as announced on April 30, 2020, in addition to the influenza HA program and the IL17 program, and looks forward to providing future updates as these programs

progress toward the clinic.

On November 12, 2020, the Company announced the establishment of PeptiAID Inc ("PeptiAID"), a joint venture with Fujitsu, Mizuho Capital, Kishida Chemical, and Takenaka Corporation, aimed at the development of therapeutics for the treatment of COVID19 and potentially any future coronavirus diseases. Company has been applying its proprietary PDPS technology in a multi-pronged strategy toward identifying peptide candidates targeting different sites/regions of the CoV viral "spike" protein, which is essential for coronavirus to enter human cells, and PeptiAID, will obtain some of Company's COVID19 candidate compounds, and strive to rapidly complete preclinical studies and advance them into clinical testing. In addition to fully leveraging Company's accumulated expertise and know-how in macrocyclic peptides and drug discovery, PeptiAID will harness Fujitsu's high-performance computing (HPC) technologies, as well as its Digital Annealer, a quantum-inspired computing architecture that rapidly solves combinatorial optimization problems, to further accelerate the relevant studies. Furthermore, PeptiAID will aim to shorten development times by running many of the early studies in parallel. PeptiAID will look to partner with regional pharmaceutical companies to further expedite late stage clinical testing, development, and commercialization efforts. PeptiAID has the following ownership structure; PeptiDream 25.0%, Fujitsu 25.0%, Mizuho Capital 24.9%, Takenaka Corporation 16.7%, and Kishida Chemical 8.3%.

On December 8, 2020, the Company announced that it has entered into a strategic partnership and license option agreement with Lyon, FRANCE-based Amolyt Pharma ("Amolyt"), whereby both companies will work together to test and further optimize PeptiDream's Growth Hormone Receptor Antagonist "GHRA" peptide candidates, with the goal of selecting a clinical candidate for development in acromegaly, a rare endocrine disorder with serious medical complications, to which Amolyt has an option to license the candidates for future clinical development. Under the terms of the agreement, PeptiDream will be eligible for certain payments associated with the licensing, development, and commercial success of any GHRA product(s), as well as be eligible for certain royalties on future net sales.

The Company has previously announced strategic partnerships with nine companies, one academic institution and one foundation; JCR Pharma, Modulus Discovery, Heptares, Kleo Pharma, Nihon Medi-Physics, POLA Chemical Industries ("POLA"), Kawasaki Medical School, the Bill & Melinda Gates Foundation, JSR Corporation, Mitsubishi Corporation, and RayzeBio.

The Company and JCR Pharma have successfully development a series of constrained peptides capable of carrying various therapeutic payloads across the blood-brain barrier (BBB) for delivery/targeting to the brain, arising from the joint research collaboration between the companies initiated in February 2016. Most therapeutics do not readily cross the BBB into the brain, with only a small fraction of the drug ever entering the central nervous system (CNS), posing a significant challenge to the development of effective therapeutics for the treatment of CNS disorders. The developed peptide carriers, when conjugated to various therapeutic payloads (herein referred to as a peptide-drug conjugates or "PDC"), function to facilitate the transport of the payload across the BBB into the brain, thereby significantly increasing the amount of the therapeutic in the brain. Potential payloads range from antibody and protein therapeutics to nucleic acid, peptide, and small molecules drugs. The two companies are focusing on third-party licensing activities, with PeptiDream leading such activities from execution of agreement to supply of peptide carriers, with the Dec 22, 2020 announced licensing agreement with Takeda representing the first of such licensing deals. The companies will share related revenues from licensing activities.

The Company and Modulus Discovery are working to leverage the expertise of both companies to jointly discover and develop small molecule clinical candidates based on hit candidates identified from the PDPS technology against high value targets. Modulus Discovery is utilizing its computational chemistry technology and expertise to design small molecule candidates in collaboration with the Company and its our internal efforts. The companies jointly share the costs of the discovery and development programs and will co-own any resulting products. The Company has already identified hit candidate peptides against a number of high-value kinase targets, that exhibit the desired inhibition activity independent of ATP-binding (allosteric inhibitors), and the companies have recently attained a number of crystal structures of these candidates in complex with their respective kinase targets yielding the structural information needed to enable computational small molecule design efforts. The Company has previously made a strategic equity investment in Modulus and remains a strategic shareholder.

The Company and Heptares are working to discover, develop and commercialize novel therapeutics targeting Protease Activated Receptor 2 (PAR2), which is a well validated target for multiple indications in pain, cancer, and inflammatory disease.

The strategic partnership brings together two powerful technologies, Heptares's StaR platform for GPCR target protein production and the Company's PDPS hit finding technology, in addition to considerable preclinical and clinical development capabilities. Under the agreement, the companies will jointly share the costs and will co-own any resulting products. As previously reported, the companies have identified high affinity and selective inhibitors against PAR2 and are making excellent progress toward identifying lead candidates for the program.

The Company and Kleo Pharmaceuticals ("Kleo") are working to co-discover and develop novel immune-oncology products in multiple indications. The Company will identify macrocyclic peptides using its PDPS technology against multiple oncology targets selected by Kleo, and in turn, Kleo will engineer those candidates into novel Antibody Recruiting Molecule ("ARMs"), Synthetic Antibody Mimic ("SyAMs") products, or Monoclonal Antibody Therapy Enhancers ("MATEs") products. The Company will receive a tiered share of the proceeds of any products based on the degree to which the Company funds development of the products. The Company and Kleo currently have 2 clinical candidates, both of which are referred to as CD38-ARMs (ARM™), and currently termed "KP1237 (ARM) + Autologous NK cells" and "KP1237 (ARM)" according to Kleo's pipeline. The CD38-ARMs are designed to recruit endogenous antibodies to multiple myeloma cancer cells, targeting them for destruction via the body's innate antibody-mediated immune mechanisms. CD38 is a validated multiple myeloma target, which is also overexpressed in chronic lymphocytic leukemia and other cancers. The molecules were chosen after showing positive signals towards safety and efficacy in preclinical models. "KP1237 (ARM) + Autologous NK cells" is a short acting ARM and intended for use in multiple myeloma ("MM") patients post-transplant. "KP1237 (ARM)" is a long acting ARM and intended for a larger market of multiple myeloma patients relapsed / refractory in Daratumumab therapy. Kleo received IND authorization from the US Food and Drug Administration ("FDA") to initiate a safety and tolerability clinical study combining KP1237 with patients' own Natural Killer ("NK") cells to treat MM in post-transplant patients and on Sept 8, 2020, Kleo announced that KP1237 had received Orphan Drug Designation for use in multiple myeloma. Both products were expected to enter clinical testing in 2020, but have been delayed due to the COVID19 pandemic. On January 4, 2021, the Company announced that Biohaven Pharmaceuticals ("Biohaven"), a public clinical stage biopharmaceutical company and major shareholder in Kleo, had agreed to merge and take over full control of Kleo and its discovery and development programs, due to Kleo having fundraising challenges associated with the COVID19 caused delays in starting clinical development of the CD38 programs. The Company and Biohaven will work together to progress the CD38 programs into the clinic once the COVID19 situation stabilizes.

The Company and Nihon Medi-Physics ("NMP") are working to discover, develop, and commercialize novel peptide-radioisotope (RI) conjugates for use as therapeutics and diagnostics. Company has been using its proprietary PDPS technology for the identification of novel peptides for use as Peptide-Drug Conjugates (PDCs). NMP has been pursuing the fusion of therapeutics with diagnostics; "Theranostics", and is a leader in the research, development, and manufacturing of radiopharmaceuticals. The two companies will work together across a variety of programs to conjugate Company's constrained peptides with NMP's radioisotopes to create a new exciting class of therapeutic and diagnostic products. Under the terms of the deal, both companies will independently fund their efforts, and the development and commercialization rights will be shared between the companies under a cost-sharing structured arrangement. The companies will look to commercialize products in Japan & Asia, and potentially license out such products to the United States and Europe.

The Company and POLA Chemical Industries ("POLA") are working to discover and development of dermatology focused peptide-based cosmetics, quasi-drugs, and therapeutics. The Company will identify candidates using its PDPS technology against applicable dermatological targets based on POLA's extensive expertise in the field and work together to commercialize such products. The company would lead the development of any therapeutics, arising from the collaboration. In addition, the company will expand its application of the PDPS technology to the discovery and development of peptides for use as quasi-drugs and cosmetics which are led by POLA.

The Company and Kawasaki Medical School are working to develop a peptide therapeutic for the treatment of Duchenne Muscular Dystrophy ("DMD"), a genetic disorder characterized by progressive muscle degeneration and weakness to which there are no effective treatments. Administration of the jointly developed candidate peptide significantly reduced muscle degeneration and weakness in an animal model of DMD, validating this peptide candidate as a potentially breakthrough treatment for DMD. The Company and the Medical School are continuing preclinical development with the aim of bringing this candidate into human

testing in the near future.

The Company and the Bill & Melinda Gates Foundation ("Gates Foundation") are working on multiple discovery and development programs aimed at identifying novel therapeutic macrocyclic peptide candidates to treat Malaria and Tuberculosis, two infectious diseases that disproportionately affect people in the world's poorest countries. On Nov 1, 2019, the Company announced that it had been awarded a second grant from the Gates Foundation to fund the next phase of development of a candidate series originally identified under the first grant, awarded in November 2017, for the potential treatment of Tuberculosis caused by Mycobacterium infection. The original grant provided funding for multiple discovery programs aimed at identifying novel therapeutic macrocyclic peptide candidates ("hit candidates") to treat Malaria and Tuberculosis, and these efforts yielded a number of promising hit series against a number of high-value targets, with future development steps under consideration. The new funding will cover PeptiDream's efforts in turning one of the most promising hit candidate series into lead candidates ("hit-to-lead development funding") suitable for future preclinical optimization. Bacterial infections are among the leading causes of morbidity and mortality globally. The global burden of tuberculosis is staggering, with up to one-third of the world's population latently-infected, and with 10.4 million new active cases and 1.8 million deaths occurring annually. Under the terms of the grant(s), any Gates Foundation-funded products will be made available by PeptiDream at an affordable price in lower middle-income countries (LMIC). PeptiDream will be able to merchandise each product in developed countries on its own, through licensees or a combination of both.

The Company and JSR Corporation ("JSR") are working to identify peptides suitable for use in affinity chromatography processes for the purification of certain biopharmaceuticals, namely antibody therapeutics. The manufacturing process for complex biopharmaceuticals, such as antibody therapeutics, generally consists of a target protein generation process, followed by a purification process that uses affinity chromatography to separate the target protein from the cells and various impurities by binding the proteins to a specific ligand or peptide. The development and commercialization of new affinity chromatography media based on unique, synthetic peptides has the potential to simplify the purification process and lower overall costs. This development effort will specifically focus on ensuring consistent quality and reliable mass production of ligands based on unique peptides that will enhance purification efficiency enabling the purification of biopharmaceuticals that are generally considered difficult to purify through conventional affinity chromatography.

The Company and Mitsubishi Corporation ("MC") established a joint venture company, PeptiGrowth Inc., ("PeptiGrowth") to develop, produce and sell peptide alternatives to growth factors, key ingredients of cell culture, used in the manufacturing of cell therapy, regenerative medicines and other biopharmaceuticals. PeptiGrowth is 60.5% owned by MC and 39.5% by PeptiDream. PeptiGrowth will leverage expertise and know-hows of both parent companies to work towards the advancement of cell therapy, regenerative medicines, and other biopharmaceuticals in the pharmaceutical industry. Growth factors are a class of proteins that are widely present in humans and other animals. In addition to playing important roles in cell growth and proliferation, they are crucially involved in induction of differentiation of stem cells (iPS cells, ES cells, etc.) into nerve, blood, and other types of cells. Currently, growth factors are mainly extracted from animal serum or produced by gene recombination technology, however, their production presents a number of challenges to the pharmaceutical industry, including safety risks due to contamination with impurities, variation in quality among production lots, and high production costs. PeptiGrowth will utilize PeptiDream's proprietary drug discovery platform system, PDPS (Peptide Discovery Platform System), to identify alternative peptides that perform the equivalent function as growth factors and develop a new chemical synthesis method that does not use animal serum or gene recombination technology. In addition, by establishing a commercial manufacturing process and system, PeptiGrowth will achieve high purity, less variation among production lots in terms of specification and quality, with lower costs. Dozens of growth factors have been identified to date, and in order to realize a completely Xeno-Free culture medium, multiple growth factors need to be replaced with chemically synthesized alternative compounds. This is a world-first in terms of the comprehensive development of chemically synthesized, peptide alternatives to multiple growth factors, and both MC and PeptiDream believe such an initiative is essential for further advancement of cell therapy and regenerative medicines in the industry. MC will assign officers for key management positions, and PeptiGrowth will fully leverage the MC Group's global network and its broad customer base to enhance marketing and sales functions.

The Company and RayzeBio Inc., ("RayzeBio") are working to discover and development peptide-radioisotope (RI) conjugates

for use as therapeutics (“Peptide Radiotherapeutics”). Under the agreement, the two companies will work on a number of programs against targets mutually agreed to, with PeptiDream providing peptide candidates, identified and optimized using its proprietary Peptide Discovery Platform System (PDPS) technology, to RayzeBio for further development as radiotherapeutics, with RayzeBio holding exclusive worldwide development and commercialization rights to the program peptides for use with radioisotopes. PeptiDream will lead preclinical discovery and optimization efforts, with RayzeBio leading translational biology efforts to further characterize peptide-RI conjugates and advance such conjugates into clinical development and commercialization activities. Under the terms of the agreement, PeptiDream will receive an equity interest in RayzeBio, as well as be eligible for certain payments associated with product development and commercial success, as well as royalties on future sales of any products that arise from the partnership. On October 15, 2020(JST), Rayze announced the completion of their $45 Million Series A funding round, and on December 9, 2020 (JST), announced the completion of their $105 Million Series B funding round. On November 24, 2020, the Company received a milestone payment for the progress made across multiple programs in the discovery and development of peptide-radiotherapeutics. This strategic partnership with RayzeBio, in addition to existing partnerships with Nihon Medi-Physics (2018) and Novartis (2019), solidifies PeptiDream’s position as the major player in the Peptide Radiotherapeutics field.

The Company expects to continue to form strategic partnerships with select-technology-leading bioventures and leading institutions, both in Japan and abroad, to accelerate and expand our clinical pipeline of best-in-class and first-in-class medicines.

The Company has previously announced, along with Shionogi & Co., and Sekisui Chemical Co., Ltd, the formation of PeptiStar Inc., a Contract Development and Manufacturing Organization (“CDMO”) for the research and commercial manufacture of peptide therapeutics. PeptiStar brings together the most cutting-edge technologies and innovations in large-scale peptide production from various companies throughout Japan in order to manufacture therapeutic peptides of the highest quality and purity, while simultaneously driving down the cost of production. It is anticipated that PeptiStar will become the go-to CMO for all of the Company’s discovery and development partners, in addition to the Company’s own in-house/strategic partnered programs. The PeptiStar manufacturing facility is located in Osaka and became fully operational from October of 2019. On Dec 6, 2019, PeptiStar Inc., and AMED (The Japan Agency for Medical Research and Development) announced they had accomplished the CiCLE project goal, “establishment of a global leading contract manufacturing organization (CMO) for constrained peptide medicines”. On Dec 1, 2020, PeptiStar announced that it had successfully raised funds totaling 1,790 million yen through a third-party allotment

The Company continues its commitment to promoting ESG (Environmental, Social, and Governance) initiatives and its sustainability efforts including focus areas, ten most material issues, relevant policies and data are proactively disclosed on the corporate website (https://www.peptidream.com/esg/data_en.html). The Company will continue to strive to meet the highest standards for environmental responsibility, social promotion, and good corporate governance. On June 22, 2020, the Company announced that it had been selected as an index constituent of the FTSE4Good Index Series and the FTSE Blossom Japan Index. Created by the global index and data provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indexes are used by a wide variety of market participants to create and assess responsible investment funds and other products. The FTSE Blossom Japan Index is designed as an industry neutral benchmark that reflects the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices in Japan. FTSE Russell evaluations are based on performance in areas such as Corporate Governance, Health & Safety, Anti-Corruption and Climate Change. It is considered that businesses included in the FTSE4Good Index Series and the FTSE Blossom Japan Index meet a variety of environmental, social and governance criteria.

On Jan 4, 2021, the Company announced that it expects to record an extraordinary loss (impairment loss) of 956 million yen on non-current assets in the fourth quarter in the fiscal year ending December 31, 2020, as the result of a revaluation of its investment in securities related to Kleo, as Kleo merged with Biohaven. Despite this, on the same day Jan 4, 2021, the Company also announced an upward revision of its earnings forecasts for the fiscal year ending December 31, 2020, as it expected to exceed the original forecasts announced in February 2020 for both sales and profits, thanks to steadily rising revenues backed by proactive business development activities including PDC-related licensing.

As of December 31, 2020, the Company had a total of 150 employees (157 employees when including executive officers; approximately 40% of employees are women), representing an addition of 27 employee during the fiscal year ended December 31, 2020. The Company also has the equivalent of 15 chemists in China, through a contract research organization ("CRO"), working on amino acid and small molecule chemistry.

As a result, the Company reported record-high results in all items, exceeding the forecast figures upwardly-revised on January 4, 2021, with net sales of 11,677,253 thousand yen, operating income of 6,991,323 thousand yen, ordinary income of 6,976,277 thousand yen, and net income of 4,448,357 thousand yen for the fiscal year ended December 31, 2020.

The Company operates in a single business segment, and thus statements for segment information are omitted.

(Note) From the fiscal year ended December 31, 2019, PeptiDream has changed its fiscal-year end from June 30 to December 31. As a result, year-on-year changes are not given for the fiscal year ended December 31, 2019 because this is a six-month transition period that started on July 1, 2019.

(2) Overview of Financial Position for the Fiscal Year Under Review

Total assets at the end of the fiscal year under review increased by 8,449,388 thousand yen from the end of the previous fiscal year to 26,266,729 thousand yen. This was mainly because of an increase of 5,342,968 thousand yen in accounts receivable - trade, despite a decrease of 1,208,555 thousand yen in shares of subsidiaries and associates.

Liabilities increased by 4,210,673 thousand yen from the end of the previous fiscal year to 5,049,724 thousand yen. This was mainly because of an increase of 1,686,597 thousand yen in income taxes payable, and an increase of 1,768,018 thousand yen in accounts payable - other.

Net assets increased by 4,238,714 thousand yen from the end of the previous fiscal year to 21,217,004 thousand yen. This was mainly because retained earnings increased by 4,448,357 thousand yen, despite an increase of 243,813 thousand yen in treasury stock.

(3) Overview of Cash Flows for the Fiscal Year Under Review

Cash and cash equivalents for the fiscal year under review increased by 162,636 thousand yen from the end of the previous fiscal year to 7,149,358 thousand yen.

Status of cash flows and related factors during the current fiscal year are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 1,732,733 thousand yen. This was mainly due to the recording of income before income taxes of 6,020,025 thousand yen for the year, the recording of loss on valuation of investment securities of 956,251 thousand yen and the recording of depreciation of 559,201 thousand yen, despite an increase in notes and accounts receivable – trade of 5,342,968 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 1,200,025 thousand yen. This was mainly due to outflows of 691,445 thousand yen for purchase of shares of subsidiaries and associates and 575,910 thousand yen for purchase of property, plant and equipment.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash outflow of 237,244 thousand yen. This was due to purchase of treasury stock of 243,813 thousand yen, despite proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 6,569 thousand yen.

(Note) PeptiDream has changed its fiscal-year end from June 30 to December 31 from the fiscal year ended December 31, 2019. As a result, year-on-year changes are not given for the fiscal year ended December 31, 2019 because this is a six-month transition period that started on July 1, 2019.

(Reference) Cash flow-related indices

	Fiscal Year ended June 30, 2017	Fiscal Year ended June 30, 2018	Fiscal Year ended June 30, 2019	Fiscal Year ended Dec. 31, 2019	Fiscal Year ended Dec. 31, 2020
Equity ratio (%)	89.4	88.6	86.6	94.8	80.5
Equity ratio based on market capitalization (%)	2,989.8	3,428.1	3,445.4	3,938.5	2,507.9
Ratio of interest-bearing liabilities to cash flows (%)	—	—	—	—	—
Interest coverage ratio (%)	—	—	—	—	—

Equity ratio: Shareholders' equity / total assets

Equity ratio based on market capitalization: Market capitalization of shares / total assets

Ratio of interest-bearing liabilities to cash flows: Interest-bearing liabilities / cash flows

Interest coverage ratio: Cash flows / interest expense

(Notes)

1. Market capitalization of shares is calculated by multiplying the closing share price at the end of the period by the number of shares issued at the end of the period (excluding treasury stock). It should be noted that the Company does not hold treasury stock.
2. For cash flows, operating cash flows are used.
3. Figures of ratio of interest-bearing liabilities to cash flows and interest coverage ratio for the fiscal years ended June 30, 2017 through December 31, 2020 are not stated because the Company did not hold interest-bearing liabilities.

(4) Efforts to Tackle COVID19, Financial Forecasts and Other Forward-looking Information

In response to the state of emergency declaration by the Japanese government on April 7, 2020, the Company shifted operations in an effort to limit hours at the Company , allowing office employees to work from home to the greatest extent possible, and for researchers/lab work activities that require use of the laboratories, the Company established shortened work weeks and staggered work hours so as to significantly reduce the need for employees to use public transportation and also limit employee interactions once on site. Although the Company returned to normal business operations in June after the state of emergency was lifted on May 25, 2020, it has continued to implement the utmost efforts to reduce the risk of coronavirus infection for its employees, business partners and their families, by continuing to implement both clean/hygienic conditions/practices within office and lab premises along with various measures for social distancing to avoid “close contact” with one another. On January 7, 2021, the Company again shifted operations as described above in response to the state of emergency declaration in Tokyo and the three surrounding prefectures, including Kanagawa where the Company’s headquarters and research facilities are located. To date, there has been no cases of COVID19 among the Company’s employees and executive officers.

Further to the Company’s efforts to contribute to the discovery and development of therapeutics for the treatment of COVID19, on June 12, 2020, the Company announced a new discovery and development collaboration with MSD to develop peptide therapeutics capable of neutralizing both COVID19 and potential future CoV outbreaks. On November 12, 2020, the Company also announced the establishment of a joint venture PeptiAID, aimed at the development of therapeutics for the treatment of COVID19 and potentially any future coronavirus diseases. The Company will continue to strive to prevent the spread of infection within the Company and, through the development of effective therapeutic treatments, contribute to overcoming the threat of COVID19 and/or any other future coronavirus pandemic to society as a whole.

With regards to the Company’s financial results for the fiscal year ending December 31, 2021 (January 1, 2021 – December 31, 2021), the Company forecasts net sales of 11,000 million yen or more, operating income of 5,000 million yen or more, ordinary income of 5,000 million yen or more, and net income of 3,600 million yen or more. Given the ongoing global uncertainty around the COVID19 pandemic, at the moment, the Company believes that it is still difficult to predict when the COVID19 pandemic will come to end, and it remains difficult to predict when the market environment within the pharmaceutical industry will return to normal, or at least significantly stabilize. While the Company believes that the market environment will start to improve in the second half of 2021 and continue to improve/stabilize thereafter, it certainly remains possible that from an R&D perspective, 2021 could be just as challenging or potentially even more challenging than 2020 was for the pharmaceutical industry in general. Therefore, the Company believes it is best to be conservative in its financial forecasts and to continue to focus on steadily advancing its business activities and research and development programs. As such, the Company forecasts an increase in R&D expenses by 430 million yen (+29%) and the number of employees by 24 (+16%) compared to the prior fiscal year.

The Company will, in the current fiscal year (January 1 – December 31, 2021), continue to focus on the following three areas:

1. Acceleration of late-stage research programs toward clinical development

The Company will continue to push and support the clinical development of all Alliance partnered programs, as well as, accelerate its in-house and strategic partnered programs toward clinical development, programs over which the Company has more influence and decision-making power. While there are a number of programs to which the start of clinical testing have been delayed due to COVID19, the Company has made exciting progress on a number of additional programs that could move into the clinic in the near future, once the COVID19 situation is resolved/stabilized. Additionally, the Company continues to make excellent progress across the entirety of its pipeline, and will continue to focus on further accelerating all programs through the various preclinical development stages and maturing the Company’s extensive pipeline in the current fiscal year.

2. Continued expansion of PDC programs

The Company will continue to maximize the potential of its PDC programs by continuing its efforts to comprehensively identify carrier peptide candidates against a wide range of applicable drug and cellular targets of interest. PDCs can offer a variety of payload combinations such as protein, antibody, nucleic acid, peptide, small molecule and radionuclide and there are a number of related feasibility studies and research and development collaborations currently in progress. The Company will continue to investigate the many possible applications of PDCs in various disease areas while it will also make efforts to visualize, one by one,

the outcomes of each program.

3. Further expansion of strategic partnerships and investments

The Company will strategically and selectively expand into business areas where the Company can leverage the many strengths and advantages of nonstandard constrained/macrocyclic peptides. In the fiscal year 2020, the Company established a joint venture company, PeptiGrowth, to develop, produce and sell peptide alternatives to growth factors, key ingredients of cell culture, used in the manufacturing of cell therapy, regenerative medicines and other biopharmaceuticals. PeptiGrowth will lead and promote the overall growth factor business, while any business spun off from it will be promoted by the Company. The potential use and applications of nonstandard constrained/macrocyclic peptides extends far beyond conventional pharmaceuticals and diagnostics, and even the healthcare field in general. Therefore, the Company intends to continue to explore the many potential applications of these molecules through synergistic and strategic partnerships with a view toward expanding their use and maximizing profitability.

The Company is in robust financial condition with no interest-bearing debt, a capital adequacy ratio of 80.5%, and cash and cash equivalents of 7,149 million yen (as of the end of December 2020), more than sufficient to maintain research and development activities, as well as investment in further business growth. From a midium-term perspective, the Company expects to maintain its growth trend in both sales and profits while sustainability increasing the its corporate value.

【Company Performance (Prior Six Fiscal Years and Current Forecast for Fiscal Year 2021) 】

	Fiscal Year ended June 30, 2016	Fiscal Year ended June 30, 2017	Fiscal Year ended June 30, 2018	Fiscal Year ended June 30, 2019	Fiscal Year ending Dec 31, 2019	Fiscal Year ending Dec 31, 2020	Fiscal Year ending Dec 31, 2021
	2015/July ~ 2016/June	2016/July ~ 2017/June	2017/July ~ 2018/June	2018/July ~ 2019/June	2019/July ~ 2019/Dec	2020/Jan ~ 2020/Dec	2021/Jan ~ 2021/Dec
Net sales (JPY millions)	4,327	4,895	6,426	7,216	1,037	11,677	11,000 or more
Changes from the previous corresponding period (%)	74.9	13.1	31.3	12.3	―	―	(5.8)
Operating profit (JPY millions)	2,548	2,490	2,910	3,579	(887)	6,991	5,000 or more
Changes from the previous corresponding period (%)	83.2	(2.3)	16.9	23.0	―	―	(28.5)
Operating income to net sales (%)	58.9	50.9	45.3	49.6	(85.5)	59.9	45.5

* PeptiDream has changed its fiscal-year end in fiscal 2019 from June 30 to December 31. Therefore, changes from the previous corresponding period for the fiscal year ended December 31, 2019 and 2020 are not presented.

【Other key indices】

	Fiscal Year ended June 30, 2016	Fiscal Year ended June 30, 2017	Fiscal Year ended June 30, 2018	Fiscal Year ended June 30, 2019	Fiscal Year ended Dec 31, 2019	Fiscal Year ending Dec 31, 2020	Fiscal Year ending Dec 31, 2021
	2015/July ~ 2016/June	2016/July ~ 2017/June	2017/July ~ 2018/June	2018/July ~ 2019/June	2019/July ~ 2019/Dec	2020/Jan ~ 2020/Dec	2021/Jan ~ 2021/Dec
Capital Expenditures (JPY millions)	1,890	1,890	2,436	185	140	566	500
Depreciation Expense (JPY millions)	124	174	493	501	246	559	631
Research and Development Expenses (JPY millions)	228	362	921	1,141	893	1,460	1,890
Year-end headcount (people)	52	67	91	120	123	150	174

* The amount that will actually be paid is shown for capital expenditures.

The Company has re-evaluated the content disclosed for its medium-term outlook and shall continue to disclose medium-term targets. Medium-term targets by the end of June, 2022, or in a year and six months' time, are described below.

【Medium-term targets】		
1	Bringing to market new drugs (approval and sales)	1 or more
2	Number of companies with which the Company has discovery and optimization agreements	25 or more
3	Number of companies to which the Company gives PDPS non-exclusive technology license agreements	8 or more
4	Number of projects for which clinical trials begin	10 or more
5	Number of employees at the end of June, 2022	170 or more

(5) Basic Policy for Profit Distribution and Dividends for the Fiscal Year under Review and the Following Fiscal Year

The Company acknowledges that returning profits to shareholders is an essential management issue and intends to consider profit distribution taking into account its operating results and financial position. However, for the time being the Company is focusing on maintaining internal reserves and placing priority on securing research and development funds.

(6) Business Risks

The following are matters that could potentially become major risk factors associated with the business development and/or other activities of the Company. For the purpose of proactive information disclosure to investors, the Company has also included risks that are not necessarily perceived to be material to the Company and risks that are less likely to materialize, as long as they are thought to be significant from the perspective of investment decisions by the investor or for better understanding the business activities of the Company. Upon recognizing the possibility of these risks, the Company has set its policy to make every effort to prevent such risks from materializing and to minimize their impact when they occur, but does not guarantee that such risks will be prevented altogether. It should also be noted that the following is by no means an exhaustive list of all possible risks facing the Company.

Forward-looking statements hereunder are based on the Company's judgment as of the date this document was submitted and involve inherent uncertainties, and therefore the actual results may differ.

1) Risks arising from business environment

(i) Potential of nonstandard constrained/macrocyclic peptides as pharmaceuticals

The nonstandard constrained/macrocyclic peptides of the Company include not only the 20 L-amino acids that are used to naturally make proteins, but also D-amino acids, N-methyl amino acids, and other amino acid derivatives, etc. collectively referred to as nonstandard amino acids. This ability enables the Company to create various highly diverse nonstandard constrained/macrocyclic peptide libraries from which nonstandard constrained/macrocyclic peptides that exhibit high affinity and specificity against the target protein, which maintain high in-vivo stability and cell membrane permeability, can be identified.

Owing to this feature, the nonstandard constrained/macrocyclic peptides of the Company are expected to represent a new therapeutic class of molecules, and such expectations have led to and continue to lead to discovery and development agreements with pharmaceutical companies.

The Peptide Discovery Platform System (PDPS) of the Company arose in 2010. Pharmaceuticals, in general, require a significant amount of development costs and time (10 years or more) from basic research until obtaining marketing authorizations, etc. It has not been long since the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology was created and thus to date, no novel drug generated from nonstandard constrained/macrocyclic peptides of the Company has been approved. (However, novel drugs generated from organic compounds incorporating nonstandard amino acids that exist in nature have been approved. For example, in 1983, Sandoz Pharmaceuticals AG of Switzerland launched an immunosuppressive drug named "Sandimmune," and this was created by a peptide (cyclosporine) with a nonstandard structure, produced by a fungus found in the soil of the Hardanger Plateau in southern Norway).

Going forward, in cases where novel drugs cannot be developed from nonstandard constrained/macrocyclic peptides of the Company, or in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot beneficially contribute to the clients' drug development efforts, the Company's business strategies and operating results may be negatively impacted.

(ii) Technology innovation

The Peptide Discovery Platform System (PDPS) of the Company incorporates a variety of technologies that are necessary for using nonstandard constrained/macrocyclic peptides as therapeutic candidates (i.e., technologies (A) to produce nonstandard constrained/macrocyclic peptides, (B) to generate/produce libraries with high diversity compared with low-molecular weight pharmaceuticals and antibody pharmaceuticals and (C) to rapidly conduct screening). The Company considers that the technologies (A) to (C) are all superior to those technologies of other companies that also discover and develop peptides as therapeutic candidates.

However, technology is always evolving, and there is always a chance that a technology superior to the PDPS of the Company will be developed, by utilizing a technology that does not conflict with the patented technology of the Company.

The Company intends to continue to actively perform research and development and to endeavor to secure intellectual property rights necessary for the PDPS technology, for the continued upgrade and evolution of the PDPS technology. However, if a technology superior to the PDPS is developed, the Company's competitive advantage will decrease and, as a result, the Company's business strategies and operating results may be negatively impacted, with more of such cases where agreements under conditions desired by the Company can no longer be entered into with the clients.

2) Risks arising from business

(i) Business based on nonstandard constrained/macrocyclic peptide pharmaceuticals

The Company has been conducting its business operations specializing in nonstandard constrained/macrocyclic peptide pharmaceuticals. Therefore, nonstandard constrained/macrocyclic peptides produced by the Peptide Discovery Platform System (PDPS) of the Company have novelty and inventiveness leading to high originality, thus the Company believes that it is unlikely that alternative technologies could be easily developed to put the existence value of the Company at risk. However, in cases where pharmaceutical companies' views change regarding the value of nonstandard constrained/macrocyclic peptides and also in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot contribute to the clients' drug development efforts, the Company's business strategies and operating results may be negatively impacted.

Recently, by using nonstandard constrained/macrocyclic peptides as search markers, it has become apparent that this can lead to development of low-molecular weight pharmaceuticals, and the range of applicability for PDPS has significantly widened. As a result, business operations that specialized in nonstandard constrained/macrocyclic peptides is undergoing change, and while making inroads into the industry with PDPS as a foundation in drug discovery and development based on nonstandard constrained/macrocyclic peptides, the Company is attempting to expand use into development of low-molecular weight pharmaceuticals, in addition to nonstandard constrained/macrocyclic peptides. In cases where the Company cannot contribute to the development of low-molecular weight pharmaceuticals, the Company's business strategies and operating results may be negatively impacted.

(ii) Conducting joint research and development with multiple pharmaceutical companies

As of the date this document was submitted, the Company has joint research and development agreements with more than one company. Each pharmaceutical company has its specific target(s) for drug discovery and development, for which the Company will prosecute by receiving proposals concerning the research and development of, but in rare cases, the target for drug discovery and development may be requested by multiple pharmaceutical companies. Whenever such cases arise, the Company has a formal process for determining which pharmaceutical company has priority. Until now, no issue with this process has occurred.

However, in cases hereafter where this kind of coordination becomes difficult, the Company will not be able to enter into new joint research and development agreements and to acquire new target proteins, and thus the Company's business strategies and operating results may be negatively impacted.

(iii) Revenue recognition

The sales category of the Company for joint research and development agreements is, in principle, composed sequentially of (A) upfront payments (technological access fees), (B) funding for research and development, (C) funding for additional research and development, (D) premiums for drug discovery and development (E) incentives for reaching preclinical and/or clinical development goals (milestones), (F) royalties on net sales, and (G) incentives for reaching sales targets.

Although (A) upfront payments (technological access fees), (B) funding for research and development, and (C) funding for additional research and development significantly rely on the operational success of the Company, for (B) and (C) in particular, project termination resulting from client's policy changes, can result in a situation where ongoing revenue cannot be recognized, as the research and development activities cease. As for (A), whose amount is often relatively larger than that of (B) and (C), such revenue is recognized at one time, which means that the operating results of the Company could be negatively impacted by (A).

(D) Premiums for drug discovery and development and (E) incentive for reaching goals significantly rely on the business progress and strategy of the client, which are sales categories that are largely out of the control of the Company.

Therefore, in cases where the client's development progress is slowed, deprioritized or delayed, or in cases where the client's development strategy is changed, etc., the Company's business strategies and operating results may be negatively impacted.

(iv) Possibility of legal disputes

The Company, during the course of conducting its business operations, in cases where it violates the rights or interests of a third party or in cases where the counterparty considers that it did, even though it actually did not, legal disputes such as lawsuits for damages, etc. may occur.

As of the date this document was submitted, no legal dispute has occurred nor has any formal litigation initiated. In the future, however, when a legal dispute occurs between a third party and the Company, dispute resolution may require certain resources in addition to time and money and the Company can also be exposed to reputation risks resulting from the legal dispute, regardless of the final outcome. In such cases, the Company's business strategies and operating results may be negatively impacted.

In the course of future business operations, conflicts with patent rights, etc. of other companies may limit the Company's business, and in such cases, the Company's business strategies and operating results may be negatively impacted.

Furthermore, there exist no examples of the Company's nonstandard constrained/macrocyclic peptide pharmaceuticals researched and developed jointly by the Company and a pharmaceutical company commercially launched as pharmaceuticals to date. Therefore, in the unlikely event that the pharmaceutical researched and developed jointly by the Company causes unforeseen health problems, the negative image/reputation may adversely affect the reliability of the Company and its Peptide Discovery Platform System (PDPS) and thus the Company's business strategies and operating results may be negatively impacted.

(v) Material business agreements

As for agreements considered to be important or material to the Company's business operations, in cases where such agreements are terminated or in cases where changes are made to the counterparty's strategic plans, the Company's business strategies and operating results may be negatively impacted.

Further, revenue/funding related to joint research and development agreements (corresponding to or represented as sales for the Company) are, in principle, received as advances to the Company, which in turn is not obligated to return the money even in cases of early termination of the agreements. In exchange for this benefit, the counterparty holds the right to terminate the agreement at its discretion.

(vi) Dependence on counterparties of joint research and development agreements

Revenue in the Alliance business of the Company is mostly from counterparties of joint research and development

agreements (clients). Going forward, in cases where the joint research and development for novel target molecules are not commenced with the clients or in cases where results of the joint research and development do not meet the criteria required by the clients, the Company's business strategies and operating results may be negatively impacted.

In addition, for lead compounds licensed out by the Company, the client conducts the clinical trials and applies for regulatory approval and thus their progress and results significantly affect the Company's business strategies and operating results. Although the Company will support the client even after licensing out, clinical trials and applications for approval should be carried out by the client and those are beyond the control of the Company. Therefore, the possibility that the progress of clinical trials and/or applications for regulatory approval might be delayed due to reasons unexpected by the Company and that clinical trials and applications for approval might be terminated for various reasons, exists.

Furthermore, marketing plans after obtaining approval for manufacturing and sale rest solely with the clients, and thus there are possibilities such that marketing plan targets cannot be achieved due to factors such as changes in the clients' management policies or marketing plans and deterioration in the business environment.

Furthermore, as significant funds are required for the research and development of drugs, organizational restructuring and M&A are active in this industry. Clients may restructure organization or acquire competing firms (or acquired by competing firms), causing the competitive landscape within the industry to be changed drastically within short periods of time. If such large-scale corporate organizational restructuring occurs at the Company's clients, the Company's business strategies and operating results may be negatively impacted.

(vii) Product pipeline of the Company (in-house drug discovery programs)

The Company is promoting research and development of its own in-house product pipeline (in-house drug discovery programs) utilizing the characteristics of nonstandard constrained/macrocyclic peptides.

As things stand, the Company takes a two-pronged approach to development: Use of nonstandard constrained/macrocyclic peptides as pharmaceuticals, and development of PDC for use in combination with other drugs, leveraging the excellent selectivity of nonstandard constrained/macrocyclic peptides. In addition, through using nonstandard constrained/macrocyclic peptides as search markers, this can lead to development of low-molecular weight pharmaceuticals, and the Company has begun development of low-molecular weight pharmaceuticals in its internal pipeline.

As an outcome of measures to use nonstandard constrained/macrocyclic peptides as drugs, the Company made an announcement in April 2014 regarding measures related to an anti-influenza agent, and progress conditions of the above were announced in February 2015. Subsequently, the Company designated development number "PD-001," which significantly improves the active agent and internal dynamics of previous nonstandard constrained/macrocyclic peptides, as a new development candidate nonstandard constrained/macrocyclic peptide, and an announcement was made to conduct GLP-compliant pre-clinical trials following the acquisition of GLP-compliant progenitors.

Regarding PDCs, full-scale operations began from the fiscal year ended June 30, 2016, and joint research is already underway with several pharmaceutical companies.

With regard to the in-house product pipeline, if research and development progress smoothly and pre-clinical trials are conducted at the Company's expense, the Company may find itself incurring significant development costs. However, if progress in research and development of the in-house product pipeline is not smooth, there is a risk of losing certain options for future commercialization.

(viii) About strategic alliances with other companies and success or failure of corporate acquisitions, etc.

With the intent of strengthening competitiveness and expanding business scope, etc., the Company may make strategic alliances, etc. through transferring business divisions from other companies, acquiring other companies, entering into business alliances with other companies, establishing joint ventures, or making investments in other companies (hereinafter "Strategic alliances, etc.") Regarding such Strategic alliances, etc., there are possibilities such as the possibility that the alliance or integration does not proceed smoothly with the partner company due to differing views, the possibility that initially expected results cannot be attained, and the possibility that the investment amount cannot be recovered, either in part or in

whole. Additionally, there is the possibility that the partner company may make decision that conflicts with the Company's benefit, and in cases such as when the partner company makes changes to its business strategy, there is the possibility that it may become difficult for the Company to maintain the relationship under the Strategic alliance, etc., and the Company's business strategies and operating results may be negatively impacted.

3) Intellectual property rights

(i) Acquisition of and application for patents

The Company engages in various inventions and patent rights in the course of its business, some of which have already been granted to the Company, the University of Tokyo or the State University of New York, while others are at various stages of the patent process.

However, it is possible that not all of the pending applications will be granted. In addition, even after receiving grant of patent rights, there remains the possibility that the item requested may be nullified via the patent objection claim system. There is also the possibility that a legal dispute concerning the patent right might arise, such as the filing of a patent violation lawsuit or request for a hearing on patent invalidation, resulting in some adverse effect to the right implemented by the Company.

There are other possibilities that the technology included in the patent right held by the Company might become obsolete due to emergence of a technology superior to the patent right held by the Company. When such a situation occurs, the Company's business strategies and operating results may be negatively impacted. In addition, the Company has obtained, through an agreement, the exclusive license, with the right to sublicense to a third party, with regard to various inventions or patent rights which the University of Tokyo or the State University of New York is the applicant. In such cases where the contents of the said agreement are subject to alterations or the agreement is terminated due to expiration or cancellation, etc., the Company's business strategies and operating results may be negatively impacted.

(ii) Internal assignment of employee inventions

When the Company receives a right to obtain a patent for an invention by an officer or employee, etc. of the Company, the Company will pay "reasonable consideration" that is provided for in the Patent Act to the said officer or employee, etc. who is the inventor of that invention. The Company has established rules for its handling in the internal rules, etc. and ensured awareness of them among executives and employees, etc. as well as strengthened operations. However, if issues such as payment claims for reasonable consideration arise in handling employee inventions, the Company's business strategies and operating results may be negatively impacted.

4) Risks related to the pharmaceutical research and development business

(i) Uncertainties in pharmaceutical development

Pharmaceutical development in general, not only requires a considerable amount of research and development investment and time, but also has a notably low success rate compared with other industries. Even for compounds considered to be promising at the early stages of research and development, research and development can fall behind schedule due to reasons such that useful effects are not discovered in the course of pre-clinical studies and clinical trials, leading to extension or cancellation of the development. When the development is extended, additional funding may be required and the remaining patent life will be shortened, affecting the recovery of funds invested. In addition, when the development is cancelled, the funds invested in the research and development may not be recovered.

(ii) Risks related to occurrence of adverse drug reactions

Pharmaceuticals can cause unexpected adverse drug reactions starting from the clinical trial stage to post-marketing. When such unexpected adverse drug reactions occur, claim litigation and loss of creditworthiness, etc. are all possible, to which the Company's business strategies and operating results may be negatively impacted.

(iii) Regulations concerning pharmaceutical affairs including the Pharmaceutical Affairs Act

The pharmaceutical industry is subject to various regulations including the Pharmaceutical Affairs Act of each country (the "Law on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices" in Japan) and other related laws and regulations regarding business activities of research, development, manufacturing and sales.

The product pipeline of the Company is now at the discovery and development, with no product yet having been approved for sale by the Ministry of Health, Labour and Welfare of Japan, U.S. Food and Drug Administration (FDA) and European Medicines Agency (EMA). However, the Company intends to apply for regulatory approval for manufacturing and sales of pharmaceuticals pursuant to various regulations of the Pharmaceutical Affairs Act of each country and to obtain such approval in the future.

Therefore, the Company is required to prepare an internal system that meets and adheres to the regulations from the various regulatory entities mentioned above. Moreover, the Pharmaceutical Affairs Act of each country and other related laws and regulations are subject to change from time to time, and it is possible that these changes can affect the class of peptides Company is developing in either a positive or negative way, and that further improvement and amendment of the internal system might become necessary.

Compliance with such regulations shall affect the Company's business strategies and operating results.

(iv) Product liability

Development and manufacturing of pharmaceuticals are subject to the underlying risks of product liability. If any developed pharmaceutical causes adverse health issues or unintended side effects are found, whether in the course of clinical trials, manufacturing, operating or sales, in the future, the Company shall bear product liability and thus the Company's business strategies and operating results may be negatively impacted.

In addition, the negative image resulting from the product liability compensation claim can adversely affect the credibility of the Company and its pharmaceuticals, and thus the Company's business strategies and operating results may be negatively impacted.

(v) Drug administration

The selling prices of drugs for medical use are affected by the regulations relating to drug prices of Japan and the governments of other countries. Thus far, the Company has not conducted an in-house clinical trial, and has adopted a policy of licensing out candidates for early development to clients. As a result, the Company's drug price strategy depends on its clients, and is indirectly affected by the drug price policies of Japan and the governments of other countries. In the event that the Company's development candidates are brought to market, if there are negative amendments to drug prices for the relevant drugs, or other amendments to medical insurance systems, the Company's financial position and operating results may be negatively impacted.

5) Risks associated with human resources and the organization

The Company believes that securing superior human resources with expert knowledge and experience in the research and development field is indispensable for elevating its drug discovery platform technology and advancing its drug discovery research and development. Should the Company encounter any obstacles in securing its human resources as planned, or lose any of its superior human resources, the Company's business strategies and operating results may be negatively impacted.

6) Other risks

(i) Dilution of the Company's stock value due to the exercise of stock acquisition rights

The Company has granted stock acquisition rights to its officers, employees and business partners, etc. Should such stock acquisition rights be exercised, the Company's number of shares outstanding would increase, and the value of the shares held by existing shareholders and the ratio of voting rights may become diluted. As of the date this document was submitted, the number of dilutive shares to be increased by the exercisable subscription rights to shares was 4,100,000 shares, which is equivalent to 3.15% of the aggregate number of shares issued and dilutive shares.

(ii) Dividend policy

The Company recognizes returning profits to shareholders through dividends as one of its important management tasks.

Once steady predictable revenues have been attained, and enough revenue exists to cover the costs of research and development, upon comprehensively taking into account the necessity of enhancing internal reserves in preparation for future research and development activities, the Company will consider the profit distribution to its shareholders.

(iii) Information security

The Company's business involves receiving information on targeted proteins from client pharmaceutical companies. For this reason, the Company makes every effort to prevent the leakage of corporate information by requiring its employees to sign confidentiality agreements relating to corporate information including customer information.

However, should a leak of corporate information including customer information occur, the Company may face a loss of public confidence and the Company's businesses, etc. may be negatively impacted.

(iv) Cyberattacks

The technology used in cyberattacks is becoming more sophisticated than ever, and their modus operandi have become more diverse and elaborate in recent years. In light of this situation, the Company regards cyber security-related risk as one of its most material risks. The Company has taken various measures against cyberattacks such as monitoring networks and facilities primarily and is making every possible effort to manage the risk.

However, should cyberattacks cause serious system failure and interrupt business de facto despite these measures, the Company's business, etc. may be negatively impacted.

(v) Fluctuation of foreign exchange rates

Due to the large number of overseas pharmaceutical companies among the Company's clients, much of its sales are denominated in foreign currencies (mainly in US dollar) and affected by fluctuations of foreign exchange rates. Therefore, should fluctuations in foreign exchange rates occur, the Company's operating results and financial position may be negatively impacted.

(vi) Breakout of infectious diseases, etc.

The facilities and functions necessary for the Company's business activities and research and development activities are concentrated at its headquarters and research facilities. As the Company now has its employees work from home, etc., work that can be continued away from the headquarters and research facilities is limited to some administrative work. The Company has been continuing the utmost efforts to reduce the risk of infection for its employees, business partners and their families, by continuing to implement both clean/hygienic conditions/practices within office premises and various measures for social distancing to avoid "close contact" with one another as infection countermeasures. However, should a designated infectious disease break out, causing unexpected circumstances such as temporary closure of the headquarters and research facilities, the Company's business activities and operating results may be negatively impacted.

(vii) Occurrence of natural disasters, etc. due to climate change

The Company has headquarters and research facilities in Tonomachi, Kawasaki, in Kanagawa Prefecture, and facilities and personnel relating to the Company's business activities and research and development activities are concentrated in the present location. With the Tama River flowing nearby, if there is a natural disaster, such as a flood, tsunami or other water-related incidents associated with climate change, causing unexpected circumstances to occur, such as damage to the Company's facilities or supply restrictions from different types of infrastructure, the Company's business strategies and operating results may be negatively impacted.

(viii) Establishment of a CDMO (Contract Development and Manufacturing Organization)

In September 2017, the Company established a CDMO (trade name: "PeptiStar, Inc."; hereinafter, "PeptiStar") as a joint venture with Shionogi & Co., Ltd. and Sekisui Chemical Co., Ltd. in Settsu, Osaka Prefecture.

At present, the research and development of nonstandard peptide pharmaceuticals is conducted by pharmaceutical companies in Japan and overseas, but even on a global level, there is no CDMO that can provide a stable supply of high quality raw materials for nonstandard peptides at a low cost. Under these circumstances, the Company believes that establishing a CDMO with specialist technology relating to nonstandard peptide pharmaceuticals can contribute to promoting the Company's business and, by extension, expanding the market for nonstandard peptide pharmaceuticals. By strategically consolidating the state-of-the-art technology held by each of the domestic companies participating in the PeptiStar joint venture, the Company aims to eliminate bottlenecks relating to the development and sale of nonstandard peptide pharmaceuticals.

The Company has invested 1.9 billion yen into PeptiStar, and has an ownership stake of 14.9% in PeptiStar, equal to that of both Shionogi and Sekisui Chemical. In addition, the Company has guaranteed PeptiStar's debt, thereby making PeptiStar an affiliate of the Company. As a result, if PeptiStar cannot develop its business in the manner forecast by the Company at the time of investment, the Company's financial position and operating results may be negatively impacted, including an impairment of shares.

ix) The investment securities that the Company holds

The Company holds investment securities for the purpose of accelerating collaboration discovery and development. Since the values of the investment securities are determined by the circumstances of the stock issuing companies such as their financial conditions, operating results, etc., in the event that decreases in their real values call for an impairment, loss on valuation of investment securities will be posted, and thus the Company's operating results may be negatively impacted.

x) Harmful rumors

Should negative rumors about the Company, or the Company's related parties or business partners be spread by Analyst report and media coverage or be posted on the Internet, public confidence of the Company may be affected, regardless of whether there was any truth in the rumors. Should negative rumors about the Company, or the Company's related parties or business partners be spread, the credibility of the Company may be adversely affected due to the negative image, and the Company's financial position and operating results may be negatively impacted.

2. Management Policies

(1) Basic Management Policy

The Company's basic management policy is to leverage its proprietary PDPS (Peptide Discovery Platform System) to discover and develop nonstandard constrained/macrocyclic peptide pharmaceuticals in order to address unmet medical needs (medical needs for which there are no effective treatments) and to improve the quality of life of patients worldwide. To this end, the Company will contribute to the creation of a market for "nonstandard constrained/macrocyclic peptide pharmaceuticals" as a third major market following "low-molecular weight pharmaceuticals" and "antibody pharmaceuticals," and contribute to the progress of medicine around the world.

(2) Medium- to Long-term Management Strategies

Please refer to Future Outlook for details of medium- to long-term management strategies.

(3) Issues to be Addressed

The Company leverages its proprietary PDPS (Peptide Discovery Platform System) to conclude joint research and development agreements with pharmaceutical companies both in Japan and abroad for the purpose of conducting development of drugs that utilize nonstandard constrained/macrocyclic peptides.

The Company recognizes the following as issues that need to be addressed in order to sustain growth as a going concern.

(Issues associated with sales activities)

The Company has built relationships (joint research and development systems) that are mutually amicable and economically beneficial with pharmaceutical companies both in Japan and abroad, and the Company projects the conclusion of further joint research and development agreements in the future. The Company believes that in order to maintain and expand a smooth joint research and development system, strategic sales activities that move in step with establishment and enrichment of the research and development system are important.

(Issues associated with research and development activities)

The Company maintains and utilizes PDPS, and believes this system at the moment has huge technological advantages. Additionally, there are significant possibilities for the use of nonstandard constrained/macrocyclic peptides that are created via PDPS. To continue to uphold the advantage of this in-house technology, the Company is committed to strengthening its in-house research and development system while undertaking joint research with pharmaceutical companies and research institutions, etc. in Japan and overseas.

(Issues associated with internal management and controls)

The Company recognizes the reinforcement of its corporate governance as a major issue that needs to be addressed in order to develop its corporate structure as a going concern. The Company is aware that enhancement of the efficiency, soundness and transparency of management, and the long-term, stable and continuous improvement of its share value will be indispensable in winning the trust of each stakeholder, including its shareholders. The Company will, therefore, make every effort to develop an organization equipped with agility and company-level efficiency while keeping in mind the adequacy of business execution, and the efficiency and efficacy of its management functions.

3. Basic Approach to Accounting Standards

To facilitate comparison of financial data between different periods and different companies, the Company policy at the moment is to prepare financial statements based on Japanese GAAP.

While considering domestic and overseas needs, the Company intends to adopt the IFRS (International Financial Reporting Standards) when appropriate.

4. Financial Statements

(1) Balance Sheets

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	6,986,722	7,149,358
Accounts receivable - trade	312,492	5,655,460
Raw materials and stocks	341,316	585,981
Prepaid expenses	150,960	253,843
Accounts receivable - other	136,323	1,875,123
Other	111,982	121,753
Total current assets	8,039,797	15,641,520
Non-current assets		
Property, plant and equipment		
Buildings	4,061,132	4,155,352
Accumulated depreciation	(377,755)	(531,363)
Buildings, net	3,683,377	3,623,989
Structures	191,148	192,138
Accumulated depreciation	(30,915)	(43,434)
Structures, net	160,232	148,703
Tools, furniture and fixtures	2,218,881	2,688,588
Accumulated depreciation	(1,232,172)	(1,599,053)
Tools, furniture and fixtures, net	986,708	1,089,535
Land	904,628	904,628
Total property, plant and equipment	5,734,947	5,766,856
Intangible assets		
Goodwill	11,815	-
Software	102,151	77,192
Other	1,622	1,491
Total intangible assets	115,589	78,683
Investments and other assets		
Investment securities	1,295,598	3,413,342
Shares of subsidiaries and associates	1,900,000	691,445
Long-term loans receivable	95,839	89,598
Long-term loans receivable from subsidiaries and associates	-	62,805
Long-term prepaid expenses	16,977	8,921
Deferred tax assets	476,431	505,013
Other	142,158	8,541
Total investments and other assets	3,927,005	4,779,667
Total non-current assets	9,777,543	10,625,208
Total assets	17,817,340	26,266,729

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	38,595	55,276
Accounts payable - other	127,138	1,895,157
Accrued expenses	70,854	589,546
Income taxes payable	22,729	1,709,327
Advances received	312,923	319,944
Deposits received	12,367	136,777
Other	93,930	-
Total current liabilities	678,540	4,706,030
Non-current liabilities		
Provision for employee stock ownership plan trust	15,774	59,743
Provision for directors' share benefits	144,736	283,951
Total non-current liabilities	160,510	343,694
Total liabilities	839,050	5,049,724
Net assets		
Shareholders' equity		
Capital stock	3,930,541	3,933,885
Capital surplus		
Legal capital surplus	3,926,823	3,930,167
Total capital surplus	3,926,823	3,930,167
Retained earnings		
Other retained earnings		
Retained earnings brought forward	9,488,501	13,936,858
Total retained earnings	9,488,501	13,936,858
Treasury stock	(411,570)	(655,383)
Total shareholders' equity	16,934,296	21,145,528
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(40,700)	(13,128)
Total valuation and translation adjustments	(40,700)	(13,128)
Subscription rights to shares	84,693	84,604
Total net assets	16,978,289	21,217,004
Total liabilities and net assets	17,817,340	26,266,729

(2) Statements of Income

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net sales	1,037,337	11,677,253
Cost of sales	671,355	2,147,904
Gross profit	365,981	9,529,349
Selling, general and administrative expenses	1,253,150	2,538,025
Operating income (loss)	(887,168)	6,991,323
Non-operating income		
Interest income	1,179	2,167
Foreign exchange gains	41,704	-
Operation consignment fee	137,592	101,500
Subsidies for employment adjustment	-	16,875
Other	153	1,836
Total non-operating income	180,630	122,379
Non-operating expenses		
Foreign exchange losses	-	133,266
Share issuance cost	-	30
Other	-	4,128
Total non-operating expenses	-	137,426
Ordinary income (loss)	(706,537)	6,976,277
Extraordinary losses		
Loss on valuation of investment securities	-	956,251
Total extraordinary losses	-	956,251
Income (loss) before income taxes	(706,537)	6,020,025
Income taxes - current	(2,907)	1,600,250
Income taxes - deferred	(215,166)	(28,582)
Total income taxes	(218,073)	1,571,668
Net income (loss)	(488,464)	4,448,357

(3) Statements of Changes in Equity

Fiscal year ended December 31, 2019

(Thousands of yen)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings		Treasury stock	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	3,930,541	3,926,823	3,926,823	9,976,966	9,976,966	(411,570)	17,422,761
Changes of items during period							
Issuance of new shares							-
Net income				(488,464)	(488,464)		(488,464)
Acquisition of treasury stock							-
Net changes of items other than shareholders' equity							
Total changes of items during period	-	-	-	(488,464)	(488,464)	-	(488,464)
Balance at the end of current period	3,930,541	3,926,823	3,926,823	9,488,501	9,488,501	(411,570)	16,934,296

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current period	(58,400)	(58,400)	84,693	17,449,054
Changes of items during period				
Issuance of new shares				-
Net income				(488,464)
Acquisition of treasury stock				-
Net changes of items other than shareholders' equity	17,700	17,700	-	17,700
Total changes of items during period	17,700	17,700	-	(470,764)
Balance at the end of current period	(40,700)	(40,700)	84,693	16,978,289

Fiscal year ended December 31, 2020

(Thousands of yen)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings		Treasury stock	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
				Retained earnings brought forward			
Balance at the beginning of current period	3,930,541	3,926,823	3,926,823	9,488,501	9,488,501	(411,570)	16,934,296
Changes of items during period							
Issuance of new shares	3,344	3,344	3,344				6,688
Net income				4,448,357	4,448,357		4,448,357
Acquisition of treasury stock						(243,813)	(243,813)
Net changes of items other than shareholders' equity							
Total changes of items during period	3,344	3,344	3,344	4,448,357	4,448,357	(243,813)	4,211,232
Balance at the end of current period	3,933,885	3,930,167	3,930,167	13,936,858	13,936,858	(655,383)	21,145,528

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of current period	(40,700)	(40,700)	84,693	16,978,289
Changes of items during period				
Issuance of new shares				6,688
Net income				4,448,357
Acquisition of treasury stock				(243,813)
Net changes of items other than shareholders' equity	27,571	27,571	(88)	27,482
Total changes of items during period	27,571	27,571	(88)	4,238,714
Balance at the end of current period	(13,128)	(13,128)	84,604	21,217,004

(4) Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Cash flow from operating activities		
Income (loss) before income taxes	(706,537)	6,020,025
Depreciation	246,141	559,201
Amortization of goodwill	10,128	11,815
Increase (decrease) in provision for directors' share benefits	-	139,214
Interest and dividend income	(1,179)	(2,167)
Foreign exchange losses (gains)	(29,841)	132,827
Loss (gain) on valuation of investment securities	-	956,251
Share issuance cost	-	30
Decrease (increase) in notes and accounts receivable - trade	2,664,735	(5,342,968)
Decrease (increase) in inventories	(53,566)	(244,665)
Decrease (increase) in prepaid expenses	(59,807)	(94,827)
Decrease (increase) in accounts receivable - other	-	(1,738,800)
Increase (decrease) in notes and accounts payable - trade	(24,412)	16,680
Increase (decrease) in accounts payable - other	(11,744)	1,788,258
Increase (decrease) in accrued expenses	(332,832)	518,692
Increase (decrease) in advances received	(353,889)	7,020
Increase (decrease) in deposits received	(85,863)	124,410
Other, net	(290,024)	(1,109,874)
Subtotal	971,304	1,741,127
Interest and dividend income received	1,179	2,167
Income taxes paid	(732,402)	(10,725)
Income taxes refund	1,900	164
Net cash provided by (used in) operating activities	241,982	1,732,733
Cash flow from investing activities		
Purchase of shares of subsidiaries and associates	-	(691,445)
Loan advances to subsidiaries and associates	-	(62,805)
Collection of loans receivable	-	4,160
Subsidies received	-	136,323
Purchase of property, plant and equipment	(120,508)	(575,910)
Purchase of intangible assets	(17,743)	(10,350)
Net cash provided by (used in) investing activities	(138,251)	(1,200,025)
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	-	6,569
Purchase of treasury shares	-	(243,813)
Net cash provided by (used in) financing activities	-	(237,244)
Effect of exchange rate change on cash and cash equivalents	29,841	(132,827)
Net increase (decrease) in cash and cash equivalents	133,571	162,636
Cash and cash equivalents at beginning of period	6,853,150	6,986,722
Cash and cash equivalents at end of period	6,986,722	7,149,358

(5) Notes to Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Segment information, etc.)

The Company operates in a single business segment, the Alliance business segment. As such, statements for segment information are omitted because of immateriality.

(Equity in earnings and losses, etc.)

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Investments in affiliates	1,900,000	691,445
Investments accounted for using the equity method	1,636,380	294,927
Losses on investments accounted for using the equity method	140,711	729,057

(Notes) PeptiStar is no longer an affiliate of the Company due to a decrease in the percentage of ownership. Therefore, the "Investments in affiliates" and the "Investments accounted for using the equity method" do not include the investments related to PeptiStar, but the "Losses on investments accounted for using the equity method" includes PeptiStar for the period in which the Company had such an affiliate.

(Per share information)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net assets per share	134.97yen	168.10 yen
Net income per share	(3.90) yen	35.40 yen
Diluted net income per share	-	34.26 yen

(Notes) 1. Diluted net income per share for the fiscal year ended December 31, 2019 is not stated, despite the existence of potential shares, due to the posting of net loss per share.

2. Shares in the Company remaining in the trust and reported as treasury shares under shareholders' equity are included in treasury shares excluded when calculating the average number of shares during the period for the calculation of net income per share. In addition, these shares are included in the number of treasury shares excluded from the total number of shares issued at the end of the period for the calculation of net assets per share.
When calculating net income per share and diluted net income per share, the average number of treasury shares during the period that is excluded is 143,452 shares for the fiscal year ended December 31, 2019 and 173,454 shares for the fiscal year ended December 31, 2020. When calculating net assets per share, the number of shares of treasury stock at the end of the period that is excluded is 143,452 shares for the fiscal year ended December 31, 2019 and 193,694 shares for the fiscal year ended December 31, 2020.

3. Net income per share and diluted net income per share are calculated based on the following basis:

Items	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net income (loss) per share		
Net income (loss) (thousands of yen)	(488,464)	4,448,357
Net income not attributable to common shareholders (thousands of yen)	—	—
Net income (loss) related to common stock (thousands of yen)	(488,464)	4,448,357
Average number of common stock during the period (shares)	125,166,948	125,668,094
Diluted net income per share		
Adjustments for net income (thousands of yen)	—	—
Number of increase of common stock (shares)	—	4,159,153
(Subscription rights to shares)	—	(4,159,153)
Dilutive shares that do not have a diluting effect and thus were not included in the calculation of diluted net income per share	Seventh series stock acquisition rights (Number of stock acquisition rights: 24,000)	Seventh series stock acquisition rights (Number of stock acquisition rights: 24,000)

4. Net assets per share are calculated based on the following basis:

Items	As of December 31, 2019	As of December 31, 2020
Total net assets (thousands of yen)	16,978,289	21,217,004
Amounts deducted from total net assets (thousands of yen)	84,693	84,604
(Subscription rights to shares) (thousands of yen)	(84,693)	(84,604)
Amounts of net assets related to common stock at the end of the period (thousands of yen)	16,893,596	21,132,399
Number of common stock at the end of the period used for the calculation of net assets per share (shares)	125,166,948	125,716,706

(Significant subsequent events)

Not applicable.