Non-consolidated Financial Results for the Three Months Ended March 31, 2021 [Japanese GAAP]

May 13, 2021

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Supplementary briefing materials on quarterly financial results: No
Explanatory meeting on quarterly financial results: No

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

1. Financial Results for the Three Months Ended March 31, 2021 (January 1, 2021 to March 31, 2021)

(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	%
Three Months ended March 31, 2021	1,459	270.5	430	-	665	-	436	-
Three Months ended March 31, 2020	393	-	(481)	-	(488)	-	(340)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Three Months ended March 31, 2021	3.43	3.36
Three Months ended March 31, 2020	(2.71)	-

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2021	24,154	21,752	89.7
As of December 31, 2020	26,266	21,217	80.5

(Reference) Equity As of March 31, 2021: 21,667 million yen
As of December 31, 2020: 21,132 million yen

2. Payment of Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year ended December 31, 2020	-	0.00	-	0.00	0.00
Fiscal Year ending December 31, 2021	-				
Fiscal Year ending December 31, 2021 (forecast)		0.00	-	0.00	0.00

(Note) Revisions to the dividend forecast announced most recently: No

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

(Note) Revisions to the consolidated financial forecast announced most recently: No

[Notes]

(1) Adoption of accounting policies specific to the preparation of quarterly financial statements : None

(2) 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

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	As of March 31, 2021	127,710,400 shares	As of December 31, 2020	125,910,400 shares
2) Number of treasury stock at the end of the period	As of March 31, 2021	193,694 shares	As of December 31, 2020	193,694 shares
3) Average number of shares during the period	Three months ended March 31, 2021	127,136,706 shares	Three months ended March 31, 2020	125,490,025 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) (193,600 shares as of December 31, 2020 and 193,600 shares as of March 31, 2021). 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 (173,398 shares for the fiscal year ended December 31, 2020 and 193,600 shares for the three months ended March 31, 2021).

* Quarterly financial results reports are not required to be subjected to quarterly review by a certified public accountant or an audit firm

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

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.

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

(1) Explanation of Operating Results

During the three months ended March 31, 2021 (from January 1, 2021 to March 31, 2021), 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.

As of March 31, 2021, the Company's pipeline consisted of 121 discovery & development programs (representing an increase of 1 program from the end of the prior fiscal quarter ending December 31, 2020).

The below table is a snapshot of the Company's program(s) across the three drug discovery approaches at the end of the current fiscal quarter.

【Number of programs for each drug discovery approach】	As of March 31, 2021
Peptide drugs	81
Small molecule drugs	
Peptide drug conjugates ("PDCs")	40
Total	121

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, 2020	As of March 31, 2021
Target Validation-to-Hit Stage	39	38
Hit-to-Lead Stage	58	58
Lead-to-GLP-Tox Stage	13	14
GLP-Tox-to-IND Stage	8	9
Phase I	2	2
Phase II	0	0
Phase III	0	0
Total	120	121

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 February 17, 2021, the Company announced the achievement of a development milestone in its discovery alliance with Germany-based Bayer AG ("Bayer")(ETR:BAYN). The drug discovery milestone for the achievement of drug candidates meeting the hit milestone criteria, representing the 2nd discovery program to reach this development stage. This achievement entitles PeptiDream to receive an undisclosed payment per the research collaboration and license agreement between both companies announced November 16, 2017 and expanded on May 27, 2020. PeptiDream is eligible for potential 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 March 1, 2021, the Company announced the non-exclusive license of its Automated PDPS Platform to Ono Pharmaceutical, marking the 10th company to non-exclusively license the Company's PDPS technology, and the 2nd company to non-exclusively license solely the automated PDPS technology platform.

As of March 31, 2021, the Company has non-exclusively licensed its PDPS technology to 10 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), Janssen (2020), and Ono Pharmaceutical (2021).

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) small molecule therapeutics, and 3) peptide drug conjugates ("PDCs"). 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 shared, allowing for the Company to have a far larger share in the program and future revenues if successful. In addition, the Company continues to pursue a number of in-house fully-owned programs and looks forward to providing future updates as these programs progress toward the clinic.

The Company has announced strategic partnerships with JCR Pharmaceuticals Co., Ltd. ("JCR Pharma"), Modulus Discovery, Inc. ("Modulus Discovery"), Heptares Therapeutics Ltd., ("Sosei-Heptares"), Kleo Pharmaceuticals, Inc. (now Biohaven Pharmaceutical Holding Company Ltd. ("Biohaven")), Nihon Medi-Physics Co., Ltd. ("NMP"), POLA Chemical Industries ("POLA"), Kawasaki Medical School, the Bill & Melinda Gates Foundation ("Gates Foundation"), JSR Corporation ("JSR"), Mitsubishi Corporation ("MC") (PeptiGrowth Inc. ("PeptiGrowth")), RayzeBio Inc.("RayzeBio"), PeptiAID Inc. ("PeptiAID"), and Amolyt Pharma ("Amolyt").

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, and for the delivery of therapeutic payloads to muscle, 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, and/or can function to deliver the therapeutic payloads specifically to muscle, thereby significantly increasing the amount of therapeutic targeted to muscle. 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 collaborative research and exclusive license agreement to create PDCs for neuromuscular diseases with Takeda Pharmaceutical Company Limited, 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 Discovery and remains a strategic shareholder.

The Company and Sosei-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, Sosei-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 Biohaven (As announced on January 4, 2021, Biohaven agreed to merge and take over full control of Kleo and its discovery and development programs) will continue to work to co-discover and develop novel Antibody Recruiting Molecule ("ARMs") or Synthetic Antibody Mimic ("SyAMs") products in multiple indications. The Company will receive a tiered share of the proceeds of any products developed. Biohaven has taken over clinical development control of the 2 clinical candidates, both of which are referred to as CD38-ARMs (ARM^{TM}), and currently termed "KP1237 (ARM) + Autologous NK cells" and "KP1237 (ARM)". The CD38-ARMs are designed to recruit endogenous antibodies to multiple myeloma ("MM") cancer cells, targeting them for destruction via the body's innate antibody-mediated immune mechanisms. CD38 is a validated "MM" target, which is also overexpressed in chronic lymphocytic leukemia and other cancers. "KP1237 (ARM) + Autologous NK cells" is a short acting ARM and intended for use in MM patients post-transplant. KP1237 (ARM) + Autologous NK cells received IND authorization from the US Food and Drug Administration ("FDA") on February 7, 2020, to initiate a safety and tolerability clinical study combining KP1237 with patients' own Natural Killer ("NK") cells to treat MM in post-transplant patients, received Orphan Drug Designation on September 8, 2020, and it is slated to start a Ph I clinical trial in Q2, FY2021."KP1237 (ARM)" is a long acting ARM and intended for a larger market of MM patients relapsed / refractory in Daratumumab therapy. The Company and Biohaven will work together to progress the program into the clinic once the COVID19 situation stabilizes.

The Company and 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 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 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 MC 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 is 60.5% owned by MC and 39.5% by PeptiDream. PeptiGrowth will leverage expertise and know-how 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 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), RayzeBio 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 NMP (2018) and Novartis (2019), solidifies PeptiDream's position as the major player in the Peptide Radiotherapeutics field.

The Company and PeptiAID, a joint venture with Fujitsu, Mizuho Capital, Takenaka Corporation, and Kishida Chemical established November 12, 2020, are working on the development of therapeutics for the treatment of COVID19 and potentially any future coronavirus diseases. The Company has been applying its proprietary PDPS technology in a multi-pronged strategy toward identifying peptide candidates targeting different sites/regions of the COVID19 viral "spike" protein, which is essential for coronavirus to enter human cells, and PeptiAID, has obtained some of Company's COVID19 candidate compounds. On March 23, 2021, PeptiAID announced the initiation of preclinical studies of the Company's PA-001 candidate which exhibits potent antiviral activity against conventional SARS-CoV-2 and UK mutant strains, and in early studies, both South African and Brazilian mutant strains as well. Preclinical studies are ongoing with the Japan National Institute of Infectious Disease. In parallel, PeptiStar is working on supplying both GLP and GMP-compliant scale up to support IND-enabling and clinical studies. PeptiAID intends start clinical testing in humans in 2021. PeptiAID has the following ownership structure as of the end of March 2021; PeptiDream 25.0%, Fujitsu 25.0%, Mizuho Capital 24.9%, Takenaka Corporation 16.7%, and Kishida Chemical 8.3%.

The Company and Amolyt entered into a strategic partnership and license option agreement, announced December 8, 2020, , 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 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.

As of March 31, 2021, the Company had a total of 158 employees (165 employees when including executive officers; approximately 40% of employees are women), representing an addition of 8 employees during the Q1 quarter. The Company also has the equivalent of 20 chemists in China, through a contract research organization (“CRO”), working on amino acid and small molecule chemistry.

As a result, the Company reported net sales of 1,459,052 thousand yen (increased 1,065,269 thousand yen year on year), operating income of 430,466 thousand yen (operating loss of 481,278 thousand yen in the same period of the previous fiscal year), ordinary income of 665,912 thousand yen (ordinary loss of 488,296 thousand yen in the same period of the previous fiscal year), and net income of 436,518 thousand yen (net loss of 340,700 thousand yen in the same period of the previous fiscal year) for the three months ended March 31, 2021.

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

(2) Explanation of Financial Position

1) Analysis of financial position

Total assets at the end of the first quarter ended March 31, 2021 decreased by 2,112,163 thousand yen from the end of the previous fiscal year to 24,154,565 thousand yen. This was mainly because a decrease of 4,932,284 thousand yen in accounts receivable - trade, despite an increase of 4,396,466 thousand yen in cash and deposits.

Liabilities decreased by 2,647,429 thousand yen from the end of the previous fiscal year to 2,402,295 thousand yen. This was mainly because of a decrease of 1,681,564 thousand yen in accounts payable - other, and a decrease of 1,695,956 thousand yen in income taxes payable.

Net assets increased by 535,265 thousand yen from the end of the previous fiscal year to 21,752,269 thousand yen. This was mainly because retained earnings increased by 436,518 thousand yen as net income increased.

2) Analysis of status of cash flows

Cash and cash equivalents for the three months ended March 31, 2021 increased by 4,396,466 thousand yen from the end of the previous fiscal year to 11,545,824 thousand yen.

Status of cash flows and related factors during the three months ended March 31, 2021 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 4,718,018 thousand yen (a 4,378,424 thousand yen increase in inflow year on year). This was mainly due to a decrease in notes and accounts receivable – trade of 4,932,284 thousand yen and a decrease in accounts receivable – other of 1,738,052 thousand yen, despite a decrease in accounts payable – other of 1,780,067 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 415,896 thousand yen (a 148,950 thousand yen increase in outflow year on year). This was mainly due to an outflow of 414,097 thousand yen for loan advances to subsidiaries and associates, despite proceeds from investment securities sold of 145,222 thousand yen.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 19,729 thousand yen (a 13,160 thousand yen increase in inflow year on year). This was due to 19,729 thousand yen for proceeds from issuance of shares resulting from exercise of subscription rights to shares.

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

The COVID19 pandemic has had a certain impact on the Company's operations. In response to the state of emergency declaration for Tokyo, Saitama, Chiba and Kanagawa by the Japanese government on January 7, 2021, the Company shifted operations to limit hours in-the-office basis, allowing employees to work from home whenever possible. Although the Company has returned to the normal business operation in March after the state of emergency was lifted on March 21, 2021, it has been continuing the utmost efforts to reduce the risk of corona virus 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. To date, there has been no cases of COVID19 among 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.

The results for the three months ended March 31, 2021 were in line with Company's full-year forecasts, and Company's financial forecasts for the fiscal year ending December 31, 2021 remain unchanged from those announced on February 10, 2021. The Company is in robust financial condition with no interest-bearing debt, a capital adequacy ratio of 89.7%, and cash and cash equivalents of 11,545 million yen (as of the end of March 2021), more than sufficient to maintain research and development activities, as well as investment in further business growth.

	Results for the full year ended December 31, 2019	Results for the three months ended March 31, 2020	Results for the full year ended December 31, 2020	Results for the three months ended March 31, 2021	Forecasts for the full year ending December 31, 2021
	2019/July ~ 2019/Dec	2020/Jan ~ 2020/Mar	2020/Jan ~ 2020/Dec	2021/Jan ~ 2021/Mar	2021/Jan ~ 2021/Dec
Capital expenditures (million yen)	140	326	566	247	500
Depreciation expense (million yen)	246	137	559	149	631
Research and development expenses (million yen)	893	355	1,460	339	1,890
Year-end headcount (employees*)	123	124	150	158	174

*1. Year-end headcount includes both full-time and temp staff.

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

The Company announced a new Mid-Term Management Targets on March 25, 2021 for the period from the fiscal year ending December 31, 2021 to the fiscal year ending December 31, 2026. The Company's previous set of Mid-Term Management Targets were announced in the Company's financial results briefing for the fiscal year ending June 2017 on August 9, 2017, for the five year period spanning from July 2017 to the end of June 2022. After careful review across the entirety of the Company's drug discovery pipeline, and taking into consideration anticipated future developments, as well as the continued expansion of the Company's proprietary PDPS technology, the Company has formulated a new set of Mid-Term Management Targets for the end of December FY2026. Going forward, the Company anticipates over the Mid-Term a significant acceleration in the number of drug discovery programs entering and progressing through clinical development. Specifically, the Company anticipates 4 or more new therapeutic drugs (not including diagnostics) to be launched (approved), 32 or more programs to be in clinical development, and 160 or more programs to be in preclinical development, by the end of FY2026. In order to fully support and promote these targets, the Company will continue to actively expand through the hiring of highly skilled and talented professionals. In addition, in order to realize our goal of being a global "Drug Discovery Powerhouse", the Company will continue to expand our partnership network and our leading position as the hub in the global peptide-based drug discovery ecosystem.

Mid-Term Targets by the end of FY2026		**As of 12/31/2020**
(1) New drugs* launched (approved)	4 or more	0
(2) Number of clinical programs	32 or more	2
(3) Number of preclinical drug discovery programs	160 or more	118
(4) Number of employees	220 or more	150
(5) Establishing foundation as a "Drug Discovery Powerhouse"		

*Diagnostic agents and products other than therapeutics are not included.

Regarding the 5th target, the aim to solidify PeptiDream's position and reputation as a global "Drug Discovery Powerhouse", we will particularly focus our efforts on the following five initiatives:

① To further lead the expansion of the global peptide-based drug discovery eco-system and our partnership network through expanding our role as the central hub.

② To continue to expand the number of licensees of our proprietary PDPS technology and its position as "the most widely-used peptide-based drug discovery platform".

③ To create a healthy, safe, and diverse work environment where all employees can maximize their abilities, have equal opportunities, and be considered a "best place to work"

④ To strive toward a "transparent, responsive, and balanced corporate governance structure", ensure the highest business ethical standards, and maintain a continuous and open dialogue with all internal and external stakeholders.

⑤ To promote operational efficiency for the sustainable growth of society, minimize our environmental impact with a focus on water, waste, and energy efficiency, and become "carbon neutral" in our operations by 2026.

2. Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Thousands of yen)

	As of December 31, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and deposits	7,149,358	11,545,824
Accounts receivable - trade	5,655,460	723,175
Raw materials and stocks	585,981	655,334
Prepaid expenses	253,843	227,785
Other	1,996,877	157,105
Total current assets	15,641,520	13,309,226
Non-current assets		
Property, plant and equipment		
Buildings, net	3,623,989	3,586,763
Structures, net	148,703	145,568
Tools, furniture and fixtures, net	1,089,535	1,234,985
Land	904,628	904,628
Total property, plant and equipment	5,766,856	5,871,945
Intangible assets		
Software	77,192	69,494
Other	1,491	1,459
Total intangible assets	78,683	70,953
Investments and other assets		
Investment securities	3,413,342	3,312,241
Shares of subsidiaries and associates	691,445	691,445
Long-term loans receivable	89,598	88,037
Long-term loans receivable from subsidiaries and associates	62,805	476,902
Long-term prepaid expenses	8,921	11,223
Deferred tax assets	505,013	311,697
Other	8,541	10,891
Total investments and other assets	4,779,667	4,902,439
Total non-current assets	10,625,208	10,845,339
Total assets	26,266,729	24,154,565
Liabilities		
Current liabilities		
Accounts payable – trade	55,276	115,263
Accounts payable – other	1,895,157	213,592
Accrued expenses	589,546	652,834
Income taxes payable	1,709,327	13,370
Advances received	319,944	948,595
Deposits received	136,777	14,035
Other	-	100,909
Total current liabilities	4,706,030	2,058,601
Non-current liabilities		
Provision for employee stock ownership plan trust	59,743	59,743
Provision for directors' share benefits	283,951	283,951
Total non-current liabilities	343,694	343,694
Total liabilities	5,049,724	2,402,295

(Thousands of yen)

	As of December 31, 2020	As of March 31, 2021
Net assets		
Shareholders' equity		
Capital stock	3,933,885	3,943,918
Capital surplus	3,930,167	3,940,200
Retained earnings	13,936,858	14,373,376
Treasury stock	(655,383)	(655,383)
Total shareholders' equity	21,145,528	21,602,111
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(13,128)	65,818
Total valuation and translation adjustments	(13,128)	65,818
Subscription rights to shares	84,604	84,339
Total net assets	21,217,004	21,752,269
Total liabilities and net assets	26,266,729	24,154,565

(2) Quarterly Statements of Income

Three months ended March 31, 2020 and March 31, 2021

(Thousands of yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021
Net sales	393,782	1,459,052
Cost of sales	338,762	502,855
Gross profit	55,019	956,197
Selling, general and administrative expenses	536,298	525,730
Operating income (loss)	(481,278)	430,466
Non-operating income		
Interest income	1,710	171
Foreign exchange gains	-	233,365
Other	1,101	1,999
Total non-operating income	2,811	235,536
Non-operating expenses		
Foreign exchange loss	9,798	-
Share issuance cost	30	70
Miscellaneous losses	-	20
Total non-operating expenses	9,829	90
Ordinary income (loss)	(488,296)	665,912
Extraordinary losses		
Loss on sales of investment securities	-	34,825
Total extraordinary losses	-	34,825
Income (loss) before income taxes	(488,296)	631,086
Income taxes - current	1,252	1,252
Income taxes - deferred	(148,848)	193,316
Total income taxes	(147,596)	194,568
Net income (loss)	(340,700)	436,518

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Three months ended March 31, 2020	Three months ended March 31, 2021
Cash flow from operating activities		
Income (loss) before income taxes	(488,296)	631,086
Depreciation	137,263	149,726
Amortization of goodwill	5,064	-
Interest and dividend income	(1,710)	(171)
Foreign exchange losses (gains)	9,640	(74,613)
Share issuance cost	30	70
Loss (gain) on sales of investment securities	-	34,825
Decrease (increase) in notes and accounts receivable – trade	269,776	4,932,284
Decrease (increase) in inventories	(19,930)	(69,353)
Decrease (increase) in prepaid expenses	43,970	23,755
Decrease (increase) in accounts receivable - other	-	1,738,052
Increase (decrease) in notes and accounts payable - trade	55,272	59,986
Increase (decrease) in accounts payable - other	(12,114)	(1,780,067)
Increase (decrease) in accrued expenses	13,571	63,287
Increase (decrease) in advances received	268,002	628,650
Increase (decrease) in deposits received	348	(122,742)
Other, net	59,760	94,889
Subtotal	340,650	6,309,667
Interest and dividend income received	1,710	171
Income taxes paid	(2,766)	(1,591,819)
Net cash provided by (used in) operating activities	339,594	4,718,018
Cash flow from investing activities		
Proceeds from investment securities sold	-	145,222
Loan advances to subsidiaries and associates	-	(414,097)
Collection of loans receivable	-	1,560
Purchase of property, plant and equipment	(263,195)	(148,372)
Purchase of intangible assets	(3,750)	(209)
Net cash provided by (used in) investing activities	(266,945)	(415,896)
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	6,569	19,729
Net cash provided by (used in) financing activities	6,569	19,729
Effect of exchange rate change on cash and cash equivalents	(9,640)	74,613
Net increase (decrease) in cash and cash equivalents	69,578	4,396,466
Cash and cash equivalents at beginning of period	6,986,722	7,149,358
Cash and cash equivalents at end of period	7,056,300	11,545,824

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.