Consolidated Financial Results for the Nine Months Ended September 30, 2020 [Japanese GAAP]

November 5, 2020

Company name: Modalis Therapeutics Corporation
Stock exchange listing: Tokyo Stock Exchange
Code number: 4883
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Scheduled date of filing quarterly securities report: November 13, 2020
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: -

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

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

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

	Operating revenue		Operating income		Ordinary income		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2020	340	-	△168	-	△209	-	△214	-
September 30, 2019	-	-	-	-	-	-	-	-

(Note) Comprehensive income: Nine months ended September 30, 2020: ¥△215 million [-%]
Nine months ended September 30, 2019: ¥- million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2020	△8.34	-
September 30, 2019	-	-

(Notes)
1. The Company has not prepared the consolidated financial statements for the nine months ended September 2019. Accordingly, no figures are shown for the nine months ended September 30, 2019 and no percentage changes are shown for the nine months ended September 30, 2020.
2. Although the Company has dilutive shares, diluted earnings per share are not indicated because basic loss per share is recorded for the period under review.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of September 30, 2020	6,480	6,428	99.2
As of December 31, 2019	3,938	3,842	97.6

(Reference) Equity: As of September 30, 2020: ¥6,428 million
As of December 31, 2019: ¥3,842 million

2. Dividends

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

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

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

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

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

*** Notes:**

(1) Changes in significant subsidiaries during the nine months ended September 30, 2020 (changes in specified subsidiaries resulting in changes in scope of consolidation): No
Notes on changes in significant subsidiaries during the nine months ended September 30, 2020

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No
Notes on accounting policies adopted specially for the preparation of quarterly consolidated financial statements

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No
Notes on changes in accounting policies

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

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

September 30, 2020: 28,090,000 shares

December 31, 2019: 25,100,000 shares

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

September 30, 2020: - shares

December 31, 2019: - shares

3) Average number of shares during the period:

Nine months ended September 30, 2020: 25,665,611 shares

Nine months ended September 30, 2019: - shares

Notes on total number of issued shares

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

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

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

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

(1) Explanation of Business Results

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

Against this backdrop, the Group, in its fifth year of establishment in 2016, has promoted its business proactively under the corporate philosophy "Every Life Deserves Attention," aiming to provide epoch-making therapeutic agents for genetic disorders, most of which are rare diseases. Capitalizing on the advantages of the CRISPR-GNDM® platform that is the technology base, the Group has adopted a hybrid business model to create therapeutic agents for genetic disorders for achieving "wide-range developments" and "value chain supplement," combining: "collaboration pipelines" where the Group releases the CRISPR-GNDM® technologies, or the technology platform, to partners that develop therapeutic agents for diseases of their choice at their expense; and "internal pipelines" where the Group uses the CRISPR-GNDM® technologies, chooses diseases to be targeted, and develops the therapeutic agents at the Group's expense.

During the nine months ended September 30, 2020, five collaboration pipelines and two internal pipelines were in progress. Steady progress in joint R&D programs with partners led us to achieve a development milestone for one of the licensed programs, receive an upfront payment for a new program, and record research milestone income for three existing programs. In the last quarter, we initiated preclinical studies in non-human primates for internal pipeline candidate, MDL-101 and are making good progress. For business development, we are in discussions with multiple pharma companies for licenses to internal pipeline candidates including MDL-101.

As a result, for the nine months ended September 30, 2020, operating revenue amounted to ¥340,000 thousand, operating loss to ¥168,000 thousand, ordinary loss to ¥209,012 thousand, and loss attributable to owners of parent to ¥214,093 thousand.

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

(2) Explanation of Financial Position

Status of Assets, Liabilities and Net Assets

(Current Assets)

Total current assets at the end of the third quarter of the fiscal year under review increased by ¥1,771,655 thousand from the end of the previous fiscal year to ¥5,646,629 thousand. This is mainly attributable to a increased in cash and deposits by ¥1,760,558 thousand.

(Non-current Assets)

Total non-current assets at the end of the third quarter of the fiscal year under review increased by ¥770,387 thousand from the end of the previous fiscal year to ¥833,841 thousand. This is mainly attributable to right to use patent of ¥783,123 thousand.

(Current Liabilities)

Total current liabilities at the end of the third quarter of the fiscal year under review decreased by ¥47,683 thousand from the end of the previous fiscal year to ¥43,456 thousand. This is mainly attributable to a decrease in income taxes payable by ¥6,442 thousand and other by ¥41,241 thousand.

(Non-current Liabilities)

Total non-current liabilities at the end of the third quarter of the fiscal year under review increased by ¥3,997 thousand from the end of the previous fiscal year to ¥8,742 thousand. This is attributable to an increase in deferred tax liabilities by ¥3,997 thousand.

(Net Assets)

Total net assets at the end of the third quarter of the fiscal year under review increased by ¥2,585,729 thousand from the end of the previous fiscal year to ¥6,428,272 thousand. This is mainly attributable to a decrease in retained earnings by ¥214,093 thousand thanks to the posting of profit despite an increase in share capital and capital surplus by ¥1,400,697 thousand.

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

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

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of December 31, 2019	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	3,857,235	5,618,093
Accounts receivable - trade	6,600	3,300
Other	11,139	25,235
Total current assets	3,874,974	5,646,629
Non-current assets		
Property, plant and equipment	48,954	39,616
Intangible assets		
Right to use patent	—	783,123
Total intangible assets	—	783,123
Investments and other assets	14,499	11,101
Total non-current assets	63,453	833,841
Total assets	3,938,428	6,480,471
Liabilities		
Current liabilities		
Income taxes payable	21,820	15,377
Other	69,320	28,079
Total current liabilities	91,140	43,556
Non-current liabilities		
Deferred tax liabilities	4,744	8,742
Total non-current liabilities	4,744	8,742
Total liabilities	95,885	52,199
Net assets		
Shareholders' equity		
Share capital	1,300,000	2,700,697
Capital surplus	2,621,735	4,022,432
Retained earnings	(79,112)	(293,205)
Total shareholders' equity	3,842,623	6,429,924
Accumulated other comprehensive income		
Foreign currency translation adjustment	(80)	(1,652)
Total accumulated other comprehensive income	(80)	(1,652)
Total net assets	3,842,542	6,428,272
Total liabilities and net assets	3,938,428	6,480,471

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended September 30

(Thousand yen)

	For the nine months ended September 30, 2020
Operating revenue	340,000
Operating expenses	
Research and development expenses	348,898
Selling, general and administrative expenses	159,101
Total operating expenses	508,000
Operating loss	(168,000)
Non-operating income	
Interest income	52
Subsidy income	79
Other	4
Total non-operating income	135
Non-operating expenses	
Listing expenses	20,104
Foreign exchange losses	5,038
Stock issuance cost	15,915
Other	89
Total non-operating expenses	41,147
Ordinary loss	(209,012)
Loss before income taxes	(209,012)
Income taxes - current	850
Income taxes - deferred	4,230
Total income taxes	5,081
Loss	(214,093)
Loss attributable to owners of parent	(214,093)

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended September 30

(Thousand yen)

	For the nine months ended September 30, 2020
Loss	(214,093)
Other comprehensive income	
Foreign currency translation adjustment	(1,572)
Total other comprehensive income	(1,572)
Comprehensive income	(215,665)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(215,665)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

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

The share capital and the capital surplus both received an addition of ¥1,159,200 thousand mainly due to new issuance of shares in association with the listing of the Company's common shares on the Tokyo Stock Exchange Mothers. The share capital and the capital surplus both received an addition of ¥223,560 thousand mainly due to the issuance of new shares through a third-party allotment to Mizuho Securities Co., Ltd. in connection with the offering of the shares.

As a result, at the end of the period, the share capital and capital surplus were ¥2,700,697 thousand, ¥4,022,432 thousand, respectively in addition to the exercise of stock acquisition rights as a stock option.

(Segment information)

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