English translation for reference purposes only

FY2021 1 Q Financial Results



(TSE4883) Modalis therapeutics Corporation

March 6, 2021

In case of any discrepancy, the Japanese version shall prevail

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1. Financial Highlights

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PL & Business Result

(Million Yen)

	FY2020 1Q	FY2021 1Q	(A) – (B)
Operating revenue	13	0	(13)
Operating expenses	129	253	124
R&D	81	184	103
SGA	47	69	22
Operating income	(116)	(252)	(136)
Ordinary income	(116)	(245)	(129)
Profit	(118)	201	319

Operating expenses

- R&D increased year on year as business progressed(primarily in personnel expenses, research material expenses)

Extraordinary income

- Income of compensation 485 Million Yen

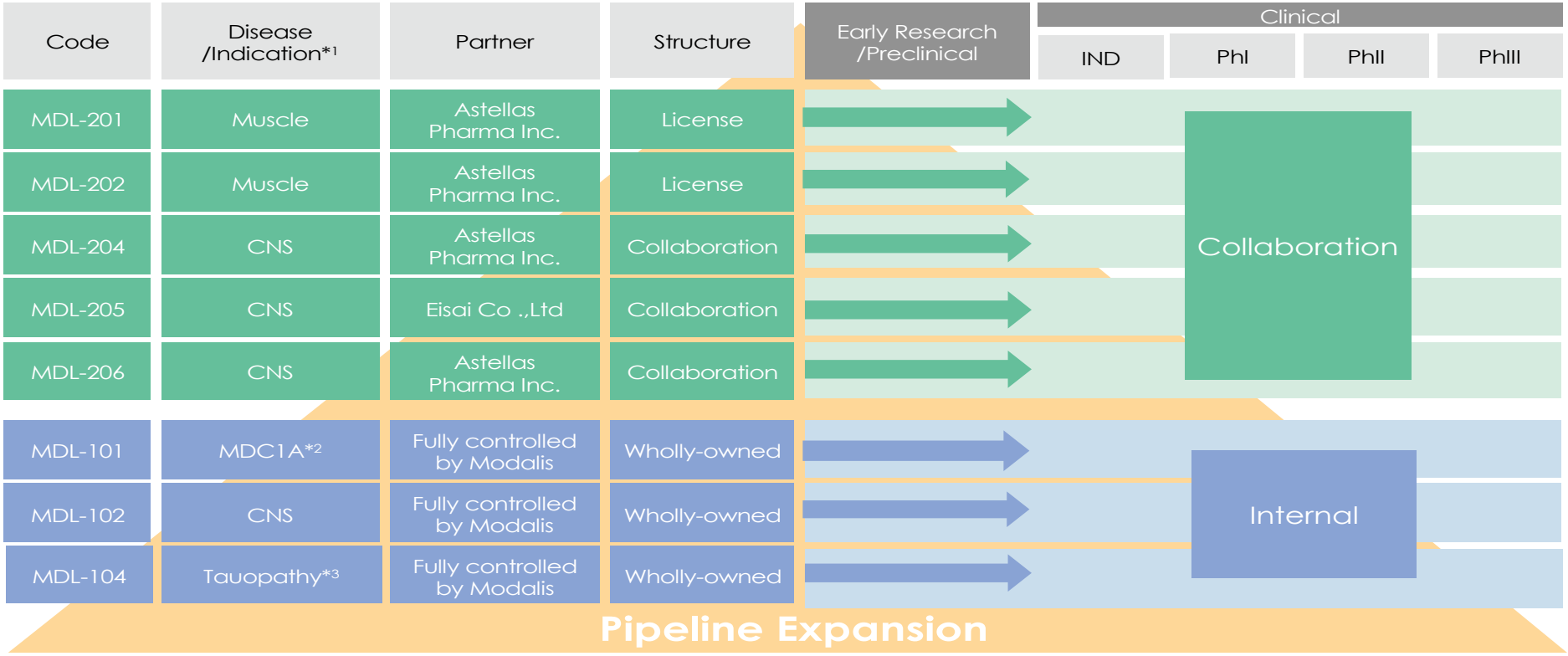
(refer to 4.Regarding the Infringement of the Lock-Up System)

SGA: Selling and Generally Administrative Expenses

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Pipeline



*1: We have adopted a strategy of withholding specific indications until the patent application is published for competitive reasons.
*2: MDC1A=Merosin-deficient congenital muscular dystrophy type 1A
*3: Tauopathy belongs to a class of neurodegenerative diseases involving the aggregation of tau protein. Correlation with Alzheimer's disease has been suggested.

MDL-101 : MDL-101 targeting MDC1A completed the 20-week NHP study and found prolonged expression of CRISPR-GNDM® during the period did not cause safety events including severe immune response against transduced molecules.

Steady progress has seen in other internal pipelines and collaboration pipelines.

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BS & Financial Position

(Million Yen)

	FY2020 (A)	FY2021 3Q (B)	(B) – (A)
Current assets	5,448	5,666	218
Cash & deposits	5,421	5,649	228
Non-current assets	828	867	39
Right to use patent	767	751	(16)
Total assets	6,277	6,533	256
Current liabilities	58	88	30
Non-current liabilities	11	14	3
Total liabilities	70	103	33
Total net assets	6,206	6,430	223
Total liabilities and net assets	6,277	6,533	256
Capital adequacy ratio	98.9%	98.4%	

- Stable financial base, High Equity ratio
- Recorded access to CRISPR/Cas9 foundational IPs from Editas Medicine, Inc

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2. Key Topics

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MDC1A

Severe muscular dystrophy caused by loss of function mutation in LAMA2 gene

- Frequency: **1 in 30,000***
- Inheritance Pattern: **Autosomal Recessive**
- Early onset: apparent at birth or within the **first few months of life**
- Symptoms:
  Severe muscle weakness;
  Lack of muscle tone (hypotonia);
  Little spontaneous movement;
  Joint deformities (contractures);
  Heart problems and seizures.
- Life expectancy:
  Because of the serious health problems that occur in this form of the disorder, many affected individuals **do not survive past adolescence**.
- Genetic cause: **LAMA2** mutation

MDC1A: merosin- deficient congenital muscular dystrophy type 1A
*Orphanet

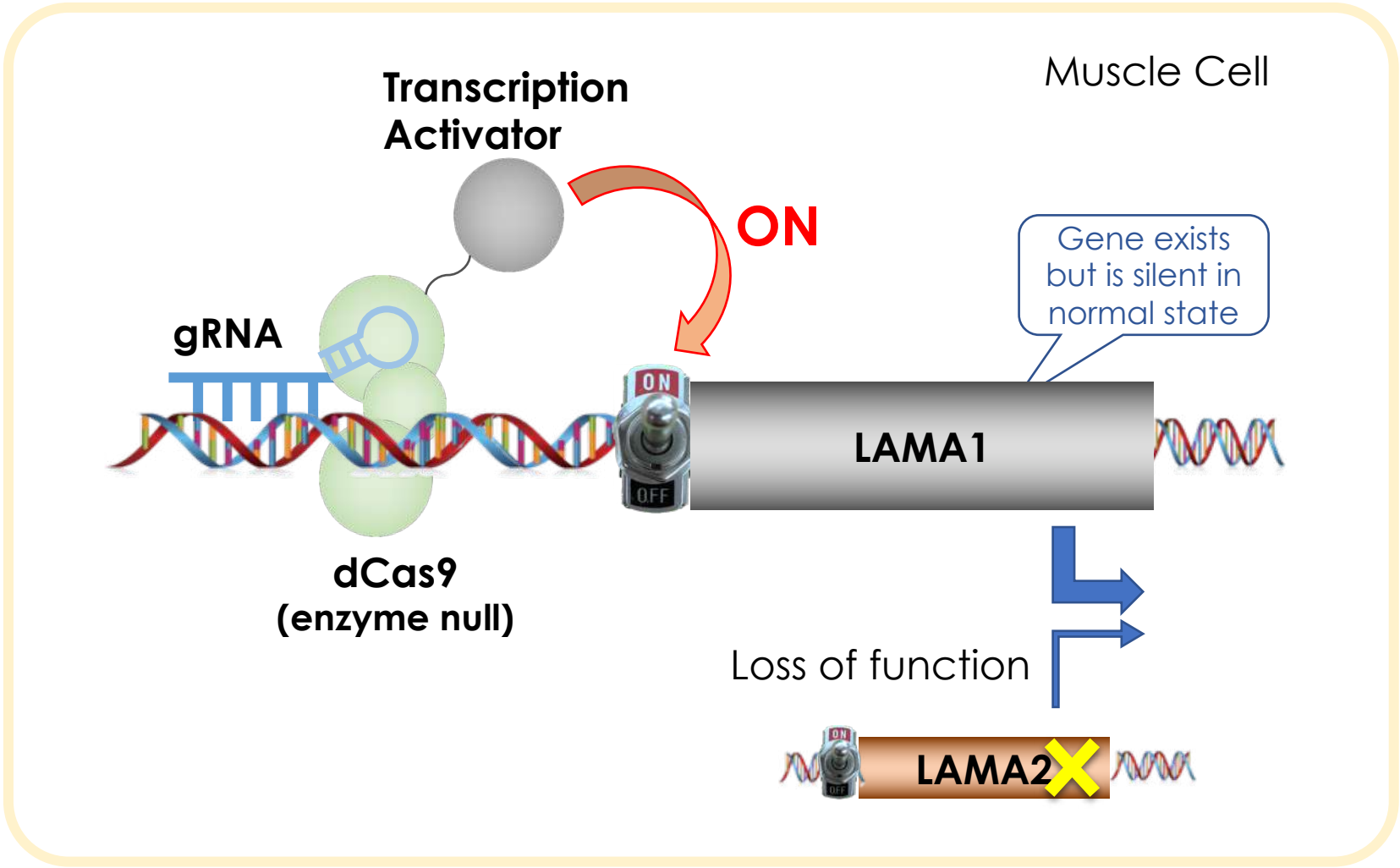
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How GNDM cure MDC1A

GNDM upregulation of LAMA1 gene in skeletal muscle

CRISPR-GNDM® targeting LAMA1

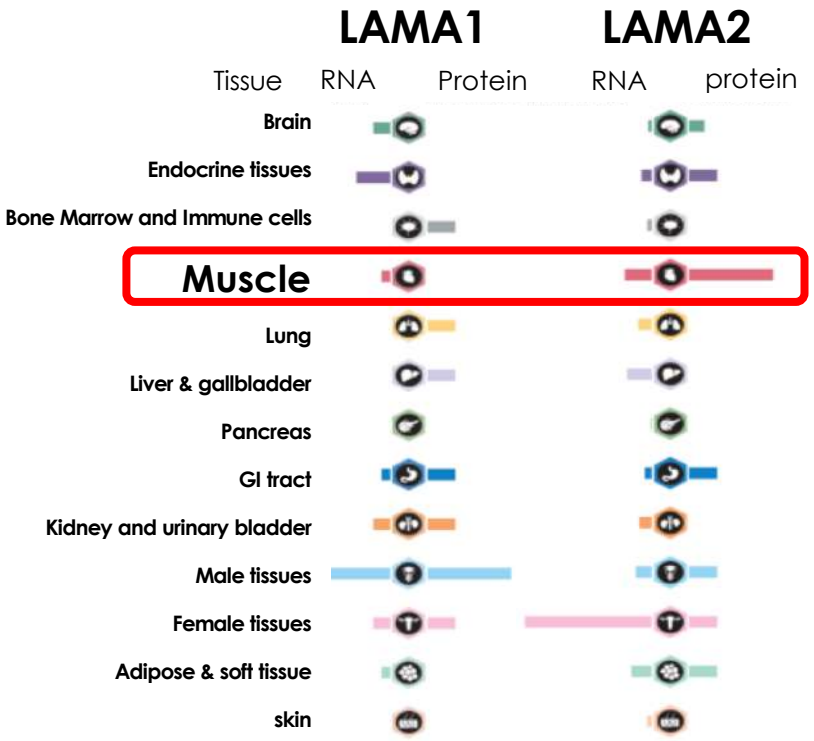


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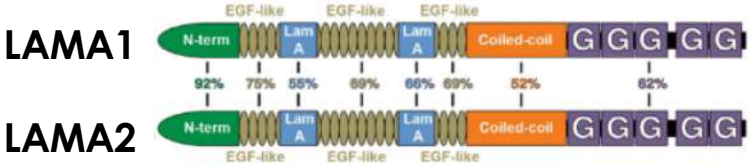
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By activating the sister gene, LAMA1, GNDM compensates missing function of LAMA2

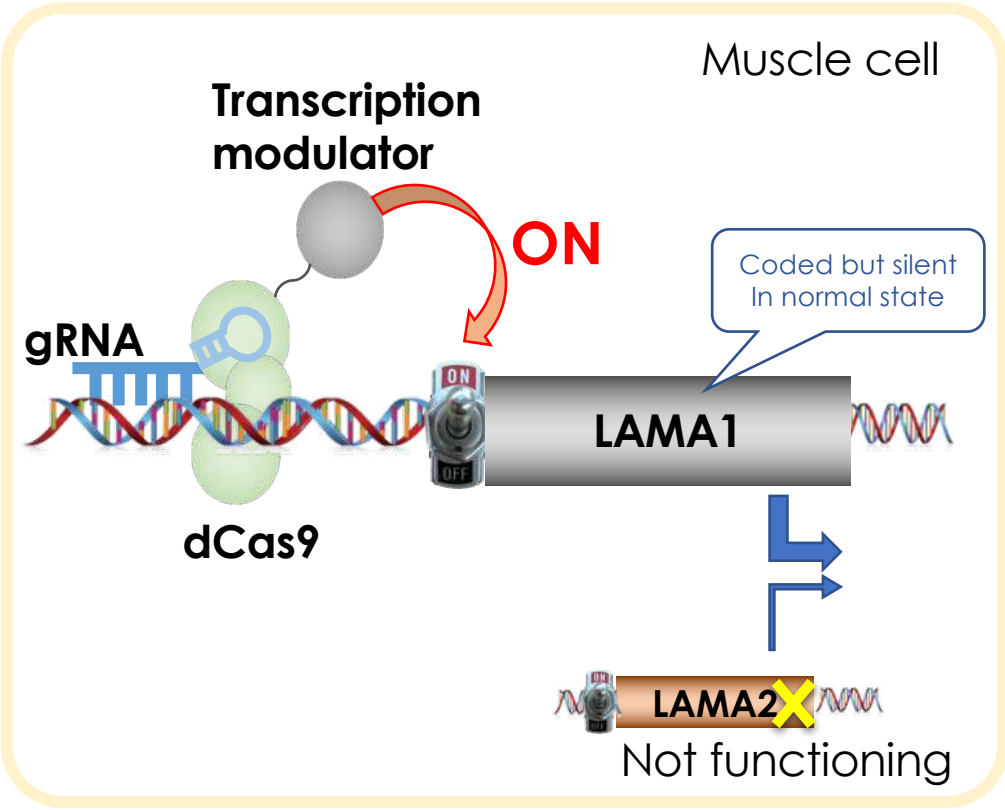
Exspression pattern of LAMA1and LAMA2 by tissues



Protein structure of LAMA1 and 2



CRISPR-GNDM® targeting LAMA1

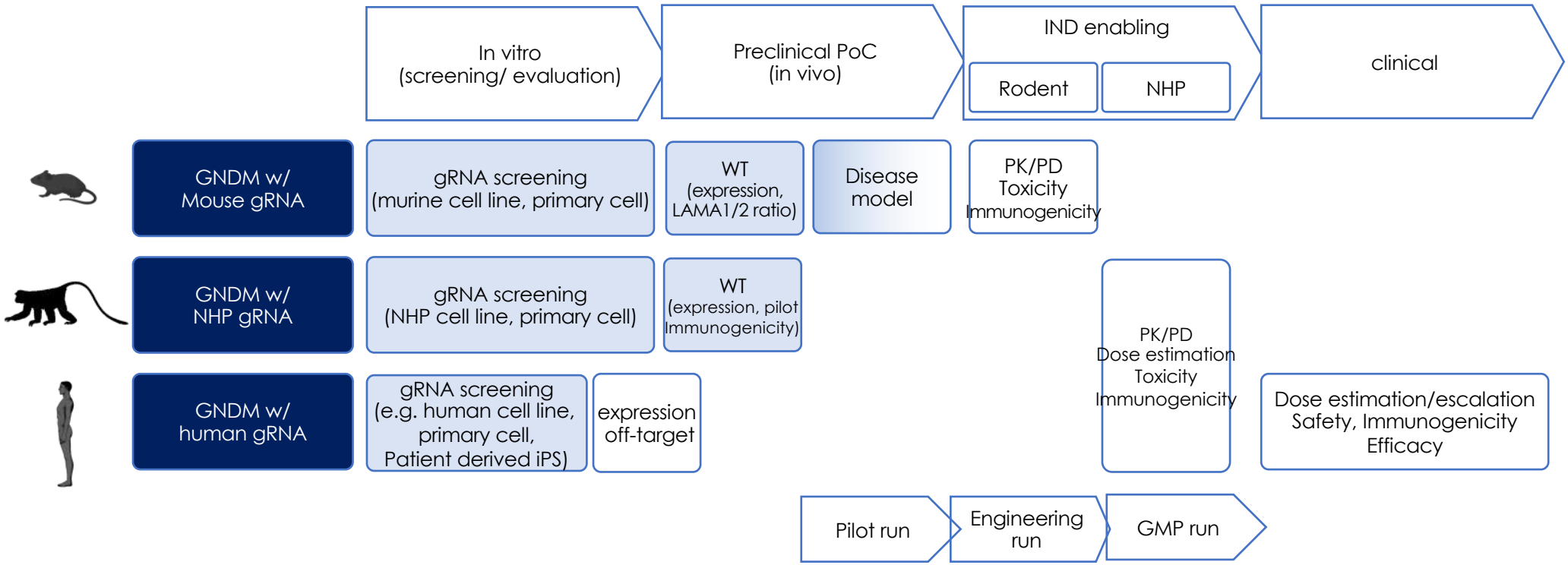


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Completed in vivo studies of MDL-101with encouraging outcome, moving towards to IND enabling studies

Path to clinic for CRISPR-GNDM®



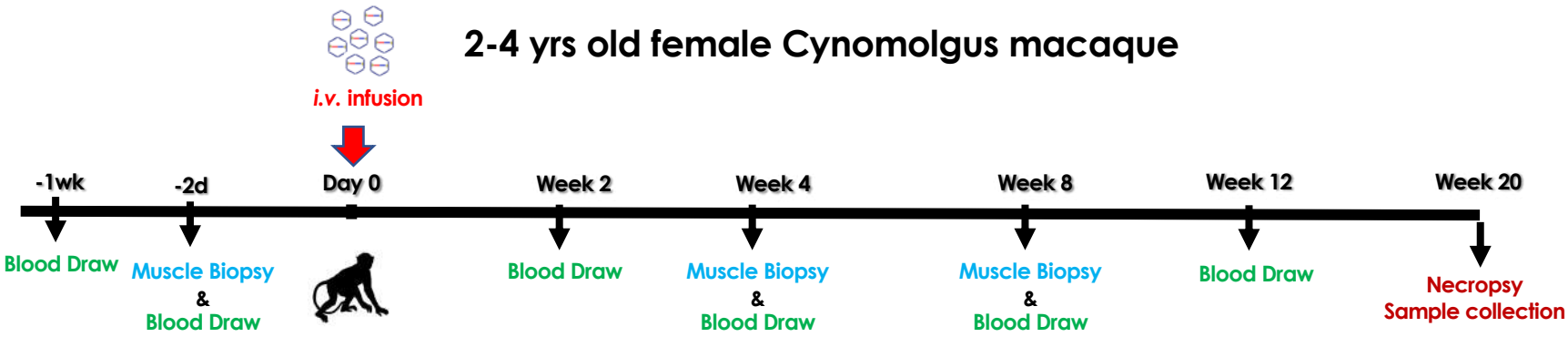
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20-wk Cyno study with GNDM-LAMA1 has completed

MDL-101 NHP pilot toxicity study design

Cohorts	Test articles	Dose (vg/Kg)	Number of animals
Control	Mock	0	3
Low Dose	AAV – cGNDM-LAMA1	1.1×10^{13}	2
High Dose	AAV – cGNDM-LAMA1	1.1×10^{14}	3



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In vivo study Summary

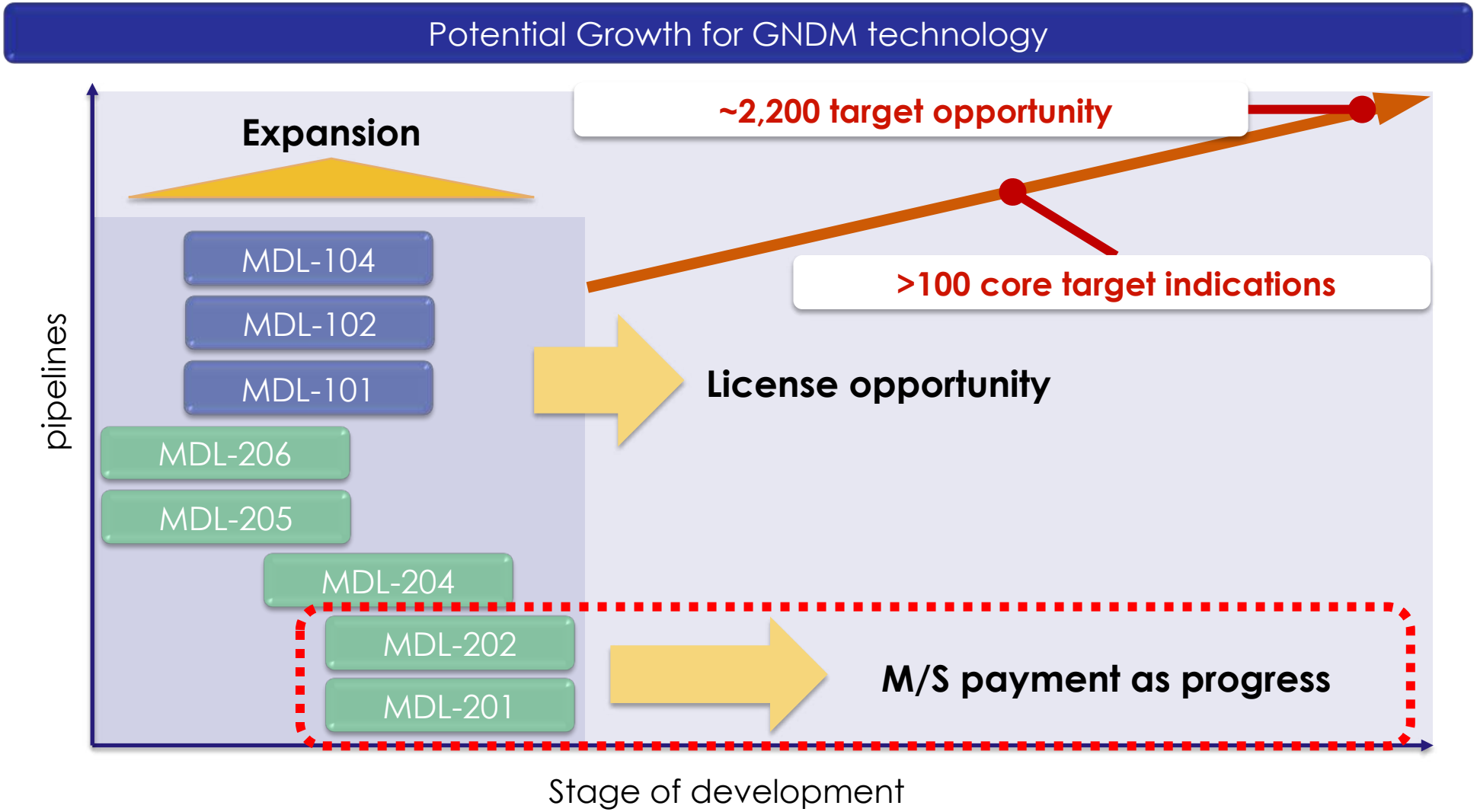
- Mouse
  - in vivo upregulation of LAMA-1 in skeletal and cardiac muscles using a Lama-1 specific gRNA
    - Strong GNDM mRNA expression
    - LAMA-1 mRNA expression induced up to 50% of endogenous LAMA-2 mRNA
    - GNDM/Cas9 protein expression detected by IHC
    - LAMA-1 protein broadly expressed in muscle tissues by IHC
  - Efficacy study in MDC1a disease models are ongoing
    - Confirmed significant improvement in a functional assay of dyW and dy2J disease models
- Cyno
  - NHP studies with AAV-cyMDL-101
    - Mild anti-Cas9 immune reaction elicited in AAV injected animals
    - No obvious lymphocytes infiltration nor tissue destruction observed in muscle tissues
    - Persistent GNDM expression detected in muscle tissues in high dose group up to the end the study(20wks)

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3. Growth Strategy

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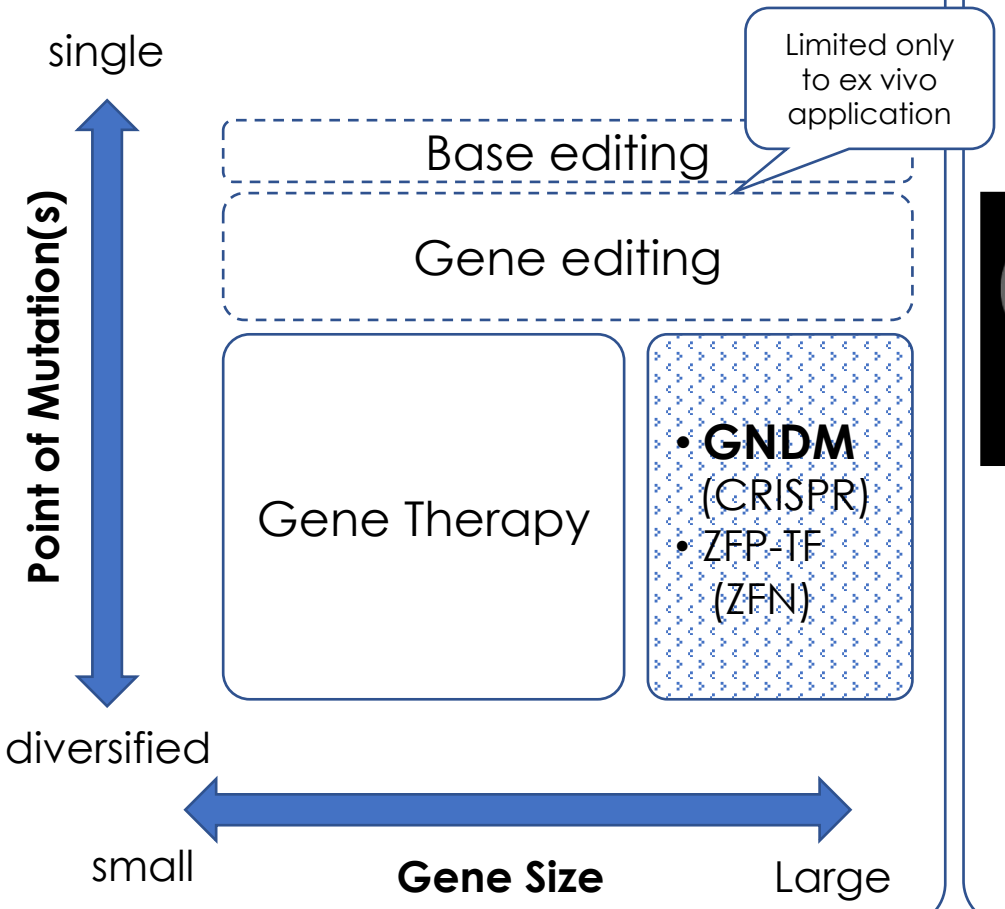
Growth Strategy
opportunity expands two dimensionally



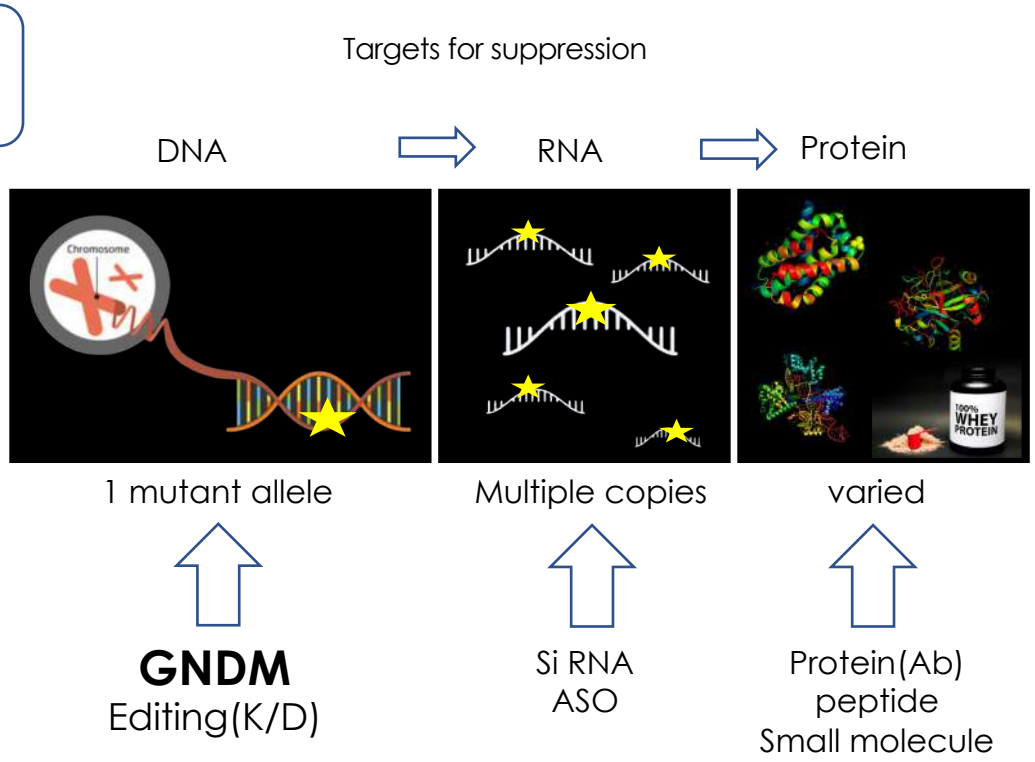
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GNDM is efficient approach both for LoF and GoF mutation

In LoF disorders



In GoF disorders

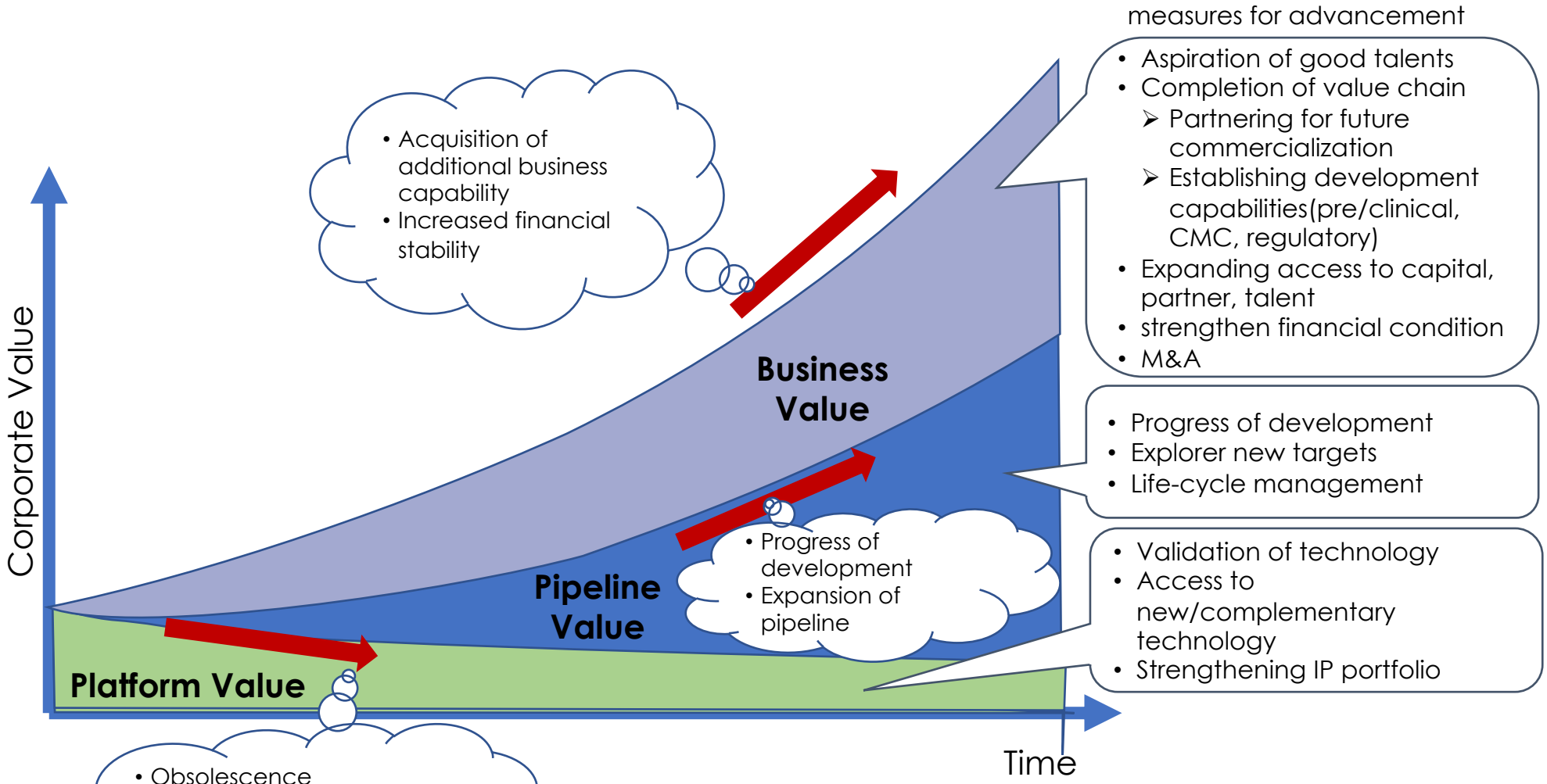


LoF: Loss of function
GoF: Gain of (mal)function

K/D: Knock-down

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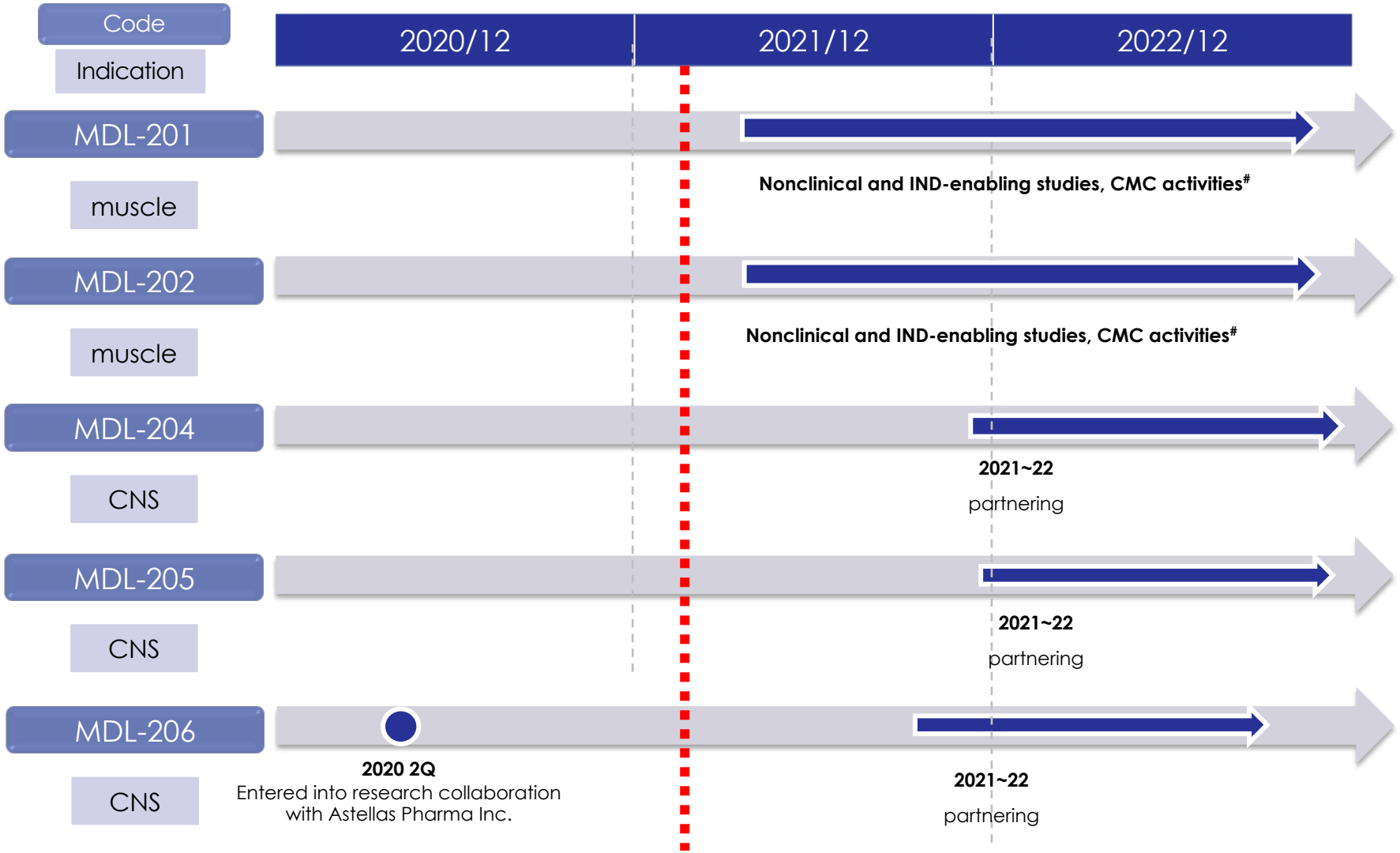
Composition of Modalis' value and measures for advance



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Collaboration pipeline

Achieved and expected Milestone events*



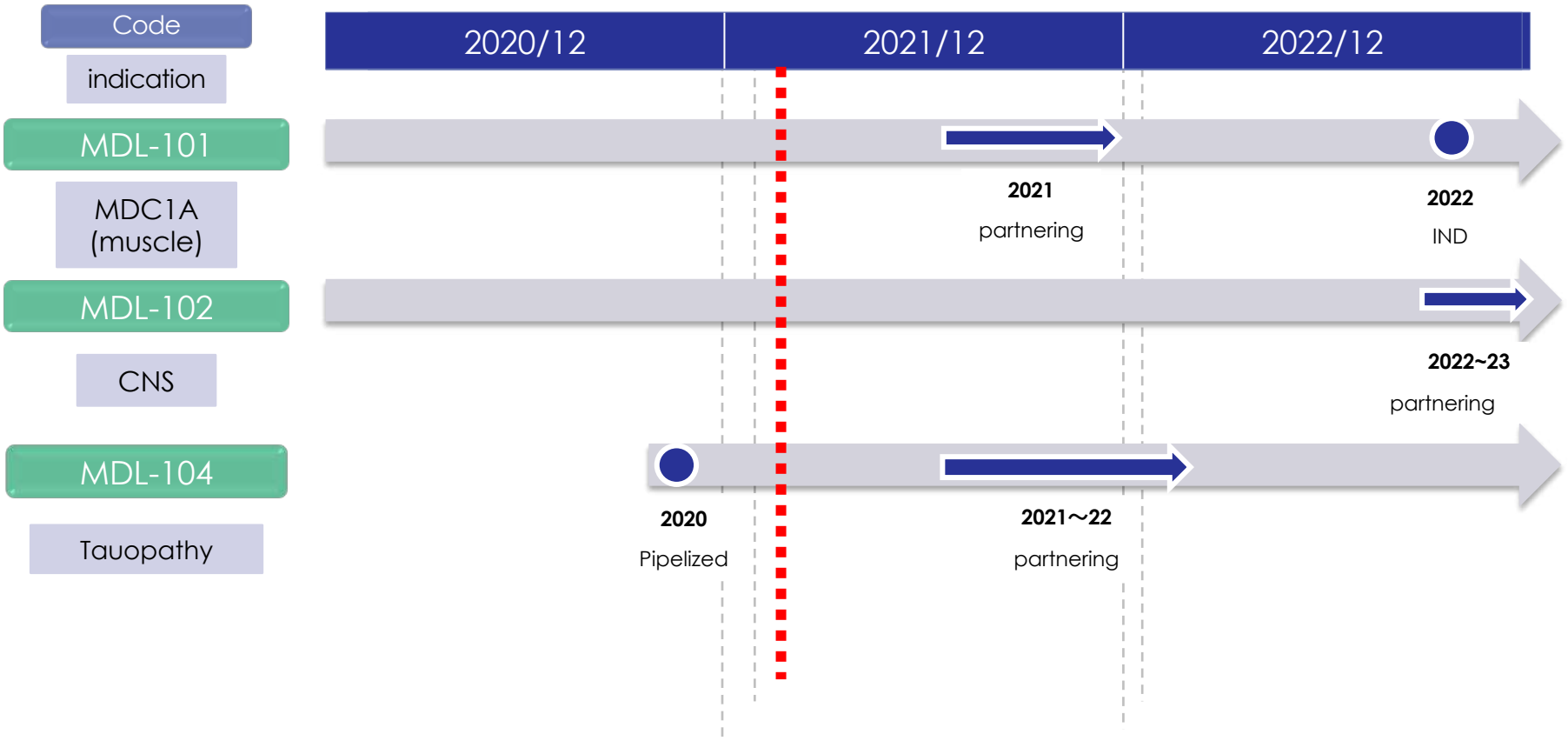
*Scheduled milestone events are informational in the future and subject to change

#The partner is taking a policy of not disclosing status of projects in preclinical or earlier

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Internal pipeline

Expected milestones by end 2021*



* Scheduled milestone events are informational in the future and subject to change

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4. Regarding the Infringement of the Lock-Up System

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Regarding the Infringement of the Lock-Up System

- Summary

When the Company confirmed the shareholder registry as the settlement work for the fiscal year ending December 2020, a shareholder of the Company, Akira Katayama (hereinafter referred to as Mr. Katayama) violated the agreement (* lock-up system) of Securities Listing Regulations and Enforcement Rules for Securities Listings Regulations set by the Tokyo Stock Exchange, Inc. (hereinafter referred to as "the TSE"). It was determined that Mr. Katayama disposed of all of the Company's shares via sale on the stock market during the lock-up period and without notifying the Company in advance. Therefore, the Company confirmed the situation with the TSE and Mr. Katayama and submitted the Notice Regarding the Transfer of Allocated Shares by way of Third-Party Allotment to the TSE in accordance with Securities Listing Regulations and Enforcement Rules for Securities Listings Regulations

※ lock-up system
:Individuals who were allocated shares by way of third-party allotment or other means during the fiscal year before the Company applied for listing on the TSE were under an agreement that would not allow the Company's shares to be traded to a third-party until 6 months from the stock listing date (August 3, 2020) or required owners to give written notice to the Company in advance before trading the Company's shares to a third-party.

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Regarding the Infringement of the Lock-Up System

- Measures

As the countermeasures proposed by Mr. Katayama's infringement of the Securities Listing Regulations and Enforcement Rules for Securities Listings Regulations and disposal of the Company's shares during the lock-up period, it has been proposed that Mr. Katayama will pay the Company the monetary amount 484 million yen.

The aforementioned infringement is unfair not only to the shareholders of the Company who have adhered to the rules of the lock-up system but to the whole market. This impacts our investors who invested with the prerequisite that the lock-up had been in place and creates a deviation from the circumstances under which they invested. The Company recognizes this as a very serious situation that has a great impact on the impartiality of the stock market.

However, ①As it was found that this infringement is not penalizable under the Securities Listing Regulations and Enforcement Rules for Securities Listings Regulations, the Company believes that ways to immediately respond to this matter are limited. ②The Company recognizes there is certain rationality in the calculated and proposed amount of the cash compensation. ③The Company expects that it will, at least partially, restore damages caused by the impartiality to the stock market, which was caused by the aforementioned infringement. Therefore, although it is a difficult choice, after consulting with each party, the Company decided to accept it as a cure for the Company and its shareholders.

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Regarding the Infringement of the Lock-Up System

- Our future policy

Since the incident occurred, the company have been in close communication with our underwriter, TSE, and our lawyer we have been examining in great detail whether there are any appropriate measures, we can take. We have been studying in great detail to see if there is any way we can do something about it.
The company do not believe that this matter has been fully resolved with the receipt, and we will continue to consider all possibilities and take appropriate measures in the future.

Please refer to the following press release for details

・2021/3/24： Notice Regarding the Transfer of Allocated Shares by way of Third-Party Allotment
・2021/3/29： Additional Information Regarding the Infringement of the Lock-Up System by a Major Shareholder
・2021/4/6： Modalis Therapeutics Corporation Questions and Answers from the 5th Ordinary General Meeting of Shareholders　Answer 6~ Answer 8

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5. Q & A

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Q & A ①

Q)
Regarding MDL-101, what is the status of the contract negotiation for licensing out now that the 20-week non-human primate (NHP) trial has completed?

A)
Currently, the NHP study has been completed up to 20 weeks and the data analysis is almost complete. We will continue to work toward the execution of a license-out agreement on MDL-101, conducting negotiations with partner candidates, and utilizing adequate data and detailed analysis from this trial in the negotiation documents.

Currently, the timing of the license-out is expected to be the latter half of 2021.

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Q & A ②

Q)

Other than during the announcement of financial results, do you release information/IR regarding the status of R&D activities (such as the NHP trial)?

A)

The company is currently in R&D phase, so the release of IR regarding the status of individual pre-clinical R&D activities is restricted. Depending on the progress and expansion of future pipelines, we believe there may be increased opportunity for IR.

Moreover, regarding the status of individual R&D activities, we have decided that publicly disclosing this information is not favorable from a competition standpoint, as it could be advantageous for our competitors and could have a harmful impact on stock value in the long-term. Furthermore, when a license is being negotiated, details of the research status can be communicated only to the negotiating party, so there are natural restrictions on public disclosure.

Disclosures regarding individual R&D activities occasionally give stockholders expectations which may have an excessive influence on the stock price. The company has decided to proactively disclose information that will have serious impacts for stockholders.

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Q & A ③

Q)
Does the change in the disclosure policy of the licensing programs, MDL-201 and 202, indicate a setback in the development?

A)
No. Our partner, Astellas, diligently continues to work on the development of MDL-201and 202.
Current IND filing is anticipated to be after 2022 due to preparations of large-scale IND enabling studies.

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Q & A ④

Q)
Regarding the violation of the lock-up system, do you believe the matter to be completely resolved after receiving a payment of 484 million yen from Mr. Akira Katayama?

A)
As reported in a press release on March 29, 2021, the proposed payment of 484 million yen from Mr. Akira Katayama for the the serious impacts incurred by the company was received, but we do not believe that this matter has been fully resolved with the receipt of 484 million yen.

After the incident, the company contacted our underwriter, the Tokyo Stock Exchange, and a lawyer to investigate any appropriate measures that could be taken and examined the matter in detail. We will continue to consider all possibilities and take appropriate measures in the future.

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Q & A ⑤

Q)
Have there been any delays in your business recently as a result of the COVID-19 pandemic?

A)
There have been no major impacts resulting from the COVID-19 pandemic on the company group's business. Aside from matters that have been previously disclosed, there are no other factors that could cause delays or changes to our business plan.

As preventative measures in response to the spread of COVID-19, the Company has implemented measures such as work from home, minimizing time spent in the research facility to perform only necessary work, prohibiting unnecessary and non-urgent outings and face-to-face meetings, promoting the use of teleconferencing tools, and offering PCR testing. We have been able to maintain this condition and carry out all work without issue.

Furthermore, we have no control over any contractor's actions, but we are not currently aware of any matters that would have an impact on our group business.

We will disclose any relevant matters or changes to our business plan in a timely manner.

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