Non-consolidated Financial Results for the Six Months Ended June 30, 2021 [Japanese GAAP]

August 5, 2021

Company name: PeptiDream Inc. Tokyo Stock Exchange
Stock code: 4587 URL https://www.peptidream.com/
Representative: Patrick C. Reid, President & Chief Executive Officer
Inquiries: Yuko Okimoto, Head of Investor Relations TEL: +81-44-223-6612
Scheduled filing date of quarterly securities report: August 6, 2021
Scheduled starting date of dividend payments: —
Supplementary briefing materials on quarterly financial results: No
Explanatory meeting on quarterly financial results: Yes(for securities analysts and institutional investors)

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

1. Financial Results for the Six Months Ended June 30, 2021 (January 1, 2021 to June 30, 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	%
Six Months ended June 30, 2021	2,879	(7.3)	818	(30.4)	1,082	(7.7)	770	(13.5)
Six Months ended June 30, 2020	3,107	-	1,176	-	1,173	-	890	-

	Net income per share	Diluted net income per share
	Yen	Yen
Six Months ended June 30, 2021	6.02	5.94
Six Months ended June 30, 2020	7.09	6.86

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2021	24,264	22,146	90.9
As of December 31, 2020	26,266	21,217	80.5

(Reference) Equity As of June 30, 2021: 22,062 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	-	0.00			
Fiscal Year ending December 31, 2021 (forecast)			-	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 June 30, 2021	130,010,400 shares	As of December 31, 2020	125,910,400 shares
2) Number of treasury stock at the end of the period	As of June 30, 2021	184,364 shares	As of December 31, 2020	193,694 shares
3) Average number of shares during the period	Six months ended June 30, 2021	127,966,687 shares	Six months ended June 30, 2020	125,618,912 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 184,200 shares as of June 30, 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 (152,974 shares for the six months ended June 30 , 2020 and 190,017 shares for the six months ended June 30, 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

(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.

Index of Appendix

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

(1) Explanation of Operating Results

During the six months ended June 30, 2021 (from January 1, 2021 to June 30, 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 June 30, 2021, the Company's pipeline consisted of 122 discovery & development programs (representing an increase of 1 program from the end of the prior fiscal quarter ending March 31, 2021).

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 June 30, 2021
Peptide drugs	82
Small molecule drugs	
Peptide drug conjugates ("PDCs")	40
Total	122

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 March 31, 2021	As of June 30, 2021
Target Validation-to-Hit Stage	38	40
Hit-to-Lead Stage	58	55
Lead-to-GLP-Tox Stage	14	16
GLP-Tox-to-IND Stage	9	9
Phase I	2	2
Phase II	0	0
Phase III	0	0
Total	121	122

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 April 5, 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 lead milestone criteria, representing the 1st 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;

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 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 announced on May 12, 2021, the companies have previously identified high affinity and selective inhibitors against PAR2 and those candidates have been optimized to be sufficiently stable in the gut for oral administration, and therefore are now considered lead candidates. The candidates are now advancing through preclinical studies with the objective of developing a novel oral peptide therapy to treat inflammation and pain in gastrointestinal (GI) disorders, such as Inflammatory Bowel Disease. The companies will jointly continue preclinical development efforts, while considering a variety of partnering and out-licensing options 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) 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 "BHV-1100(KP1237, ARM) + Autologous NK cells" and "BHV-1100 (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. "BHV-1100 (ARM) + Autologous NK cells" is a short-acting ARM and intended for use in MM patients post-transplant. "BHV-1100 (ARM)" is a long-acting ARM and intended for a larger market of MM patients relapsed / refractory in Daratumumab therapy. BHV-1100 (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 BHV-1100 with patients' own Natural Killer ("NK") cells to treat MM in post-transplant patients, and received Orphan Drug Designation on September 8, 2020. In the Phase I/II study of "BHV-1100 (ARM) + Autologous NK cells", patient recruiting has been initiated.

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 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 the original November 2017 grant provided funding for identifying novel therapeutic macrocyclic peptide candidates ("hit candidates") to treat Malaria and Tuberculosis, and the second November 2019 grant provided funding for turning one of the most promising hit candidate series into lead candidates ("hit-to-lead development funding") suitable for future preclinical development. 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. 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"). The two companies are working 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. In October, 2020, RayzeBio announced the completion of their $45 million Series A funding round, on December, 2020, the completion of their $105 million Series B funding round, and on June 15,2021, the completion of their $108 million Series C funding round. The Company received a milestone payment in November 2020 for the progress made across multiple programs in the discovery and development of peptide-radiotherapeutics, and announced a second milestone payment on June 10, 2021, as a number of programs make progress to the election of clinical candidates. 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 Alpha (UK) mutant strains, and in early studies, both Beta (South Africa) and Gamma (Brazil) mutant strains as well. In addition, PA-001's antiviral activity against Delta (India) mutant strain is under testing. In parallel, PeptiStar is working on supplying both GLP and GMP-compliant scale up to support IND-enabling and clinical studies. PeptiAID intends to start clinical testing in humans in 2021. PeptiAID has the following ownership structure as of the end of June 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 June 30, 2021, the Company had a total of 168 employees (175 employees when including executive officers; approximately 40% of employees are women), representing an addition of 10 employees during the Q2 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 2,879,446 thousand yen (decreased 228,284 thousand yen year on year), operating income of 818,433 thousand yen (decreased 358,015 thousand yen year on year), ordinary income of 1,082,821 thousand yen (decreased 90,875 thousand yen year on year), and net income of 770,529 thousand yen (decreased 119,833 thousand yen year on year) for the six months ended June 30, 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 second quarter ended June 30, 2021 decreased by 2,001,993 thousand yen from the end of the previous fiscal year to 24,264,735 thousand yen. This was mainly because a decrease of 5,546,272 thousand yen in accounts receivable - trade, despite an increase of 4,629,263 thousand yen in cash and deposits.

Liabilities decreased by 2,931,696 thousand yen from the end of the previous fiscal year to 2,118,027 thousand yen. This was mainly because a decrease of 1,678,706 thousand yen in accounts payable – other and a decrease of 1,583,045 thousand yen in income taxes payable, despite an increase of 663,509 thousand yen in advances received.

Net assets increased by 929,703 thousand yen from the end of the previous fiscal year to 22,146,707 thousand yen. This was mainly because retained earnings increased by 770,529 thousand yen as net income increased.

2) Analysis of status of cash flows

Cash and cash equivalents for the six months ended June 30, 2021 increased by 4,629,263 thousand yen from the end of the previous fiscal year to 11,778,622 thousand yen.

Status of cash flows and related factors during the six months ended June 30, 2021 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 4,959,002 thousand yen (a 3,634,941 thousand yen increase in inflow year on year). This was mainly due to a decrease in notes and accounts receivable – trade of 5,546,272 thousand yen and a decrease in accounts receivable – other of 1,738,800 thousand yen, despite a decrease in accounts payable – other of 1,712,956 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 450,310 thousand yen (a 275,095 thousand yen decrease in outflow year on year). This was mainly due to an outflow of 414,097 thousand yen for loan advances to subsidiaries and associates and an outflow of 316,109 thousand yen for purchase of property, plant and equipment, 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 44,583 thousand yen (a cash outflow of 237,013 thousand yen in the same quarter of the previous fiscal year). This was mainly due to 44,940 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. 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. On March 23, 2021, PeptiAID announced the initiation of preclinical studies of the Company's PA-001 candidate. 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 six months ended June 30, 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 90.9%, and cash and cash equivalents of 11,778 million yen (as of the end of June 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 six months ended June 30, 2020	Results for the full year ended December 31, 2020	Results for the six months ended June 30, 2021	Forecasts for the full year ending December 31, 2021
	2019/July ~ 2019/Dec	2020/Jan ~ 2020/Jun	2020/Jan ~ 2020/Dec	2021/Jan ~ 2021/Jun	2021/Jan ~ 2021/Dec
Capital expenditures (million yen)	140	389	566	350	500
Depreciation expense (million yen)	246	277	559	305	631
Research and development expenses (million yen)	893	649	1,460	748	1,890
Year-end headcount (employees*)	130	144	157	175	181

*1. Year-end headcount includes directors and 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. 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 June 30, 2021**
(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	120
(4) Number of employees	220 or more	175
(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 June 30, 2021
Assets		
Current assets		
Cash and deposits	7,149,358	11,778,622
Accounts receivable - trade	5,655,460	109,188
Raw materials and stocks	585,981	757,363
Prepaid expenses	253,843	162,425
Other	1,996,877	35,031
Total current assets	15,641,520	12,842,631
Non-current assets		
Property, plant and equipment		
Buildings, net	3,623,989	3,547,784
Structures, net	148,703	142,433
Tools, furniture and fixtures, net	1,089,535	1,232,340
Land	904,628	904,628
Total property, plant and equipment	5,766,856	5,827,186
Intangible assets		
Software	77,192	61,998
Other	1,491	5,987
Total intangible assets	78,683	67,985
Investments and other assets		
Investment securities	3,413,342	3,930,072
Shares of subsidiaries and associates	691,445	691,445
Long-term loans receivable	89,598	86,477
Long-term loans receivable from subsidiaries and associates	62,805	476,902
Long-term prepaid expenses	8,921	8,149
Deferred tax assets	505,013	323,030
Other	8,541	10,854
Total investments and other assets	4,779,667	5,526,931
Total non-current assets	10,625,208	11,422,104
Total assets	26,266,729	24,264,735
Liabilities		
Current liabilities		
Accounts payable – trade	55,276	112,920
Accounts payable – other	1,895,157	216,450
Accrued expenses	589,546	286,084
Income taxes payable	1,709,327	126,281
Advances received	319,944	983,453
Deposits received	136,777	19,473
Other	-	60,247
Total current liabilities	4,706,030	1,804,911
Non-current liabilities		
Provision for employee stock ownership plan trust	59,743	59,743
Provision for directors' share benefits	283,951	253,373
Total non-current liabilities	343,694	313,116
Total liabilities	5,049,724	2,118,027

(Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Net assets		
Shareholders' equity		
Capital stock	3,933,885	3,956,738
Capital surplus	3,930,167	3,953,020
Retained earnings	13,936,858	14,707,388
Treasury stock	(655,383)	(625,162)
Total shareholders' equity	21,145,528	21,991,984
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(13,128)	70,723
Total valuation and translation adjustments	(13,128)	70,723
Subscription rights to shares	84,604	84,000
Total net assets	21,217,004	22,146,707
Total liabilities and net assets	26,266,729	24,264,735

(2) Quarterly Statements of Income

Six months ended June 30, 2020 and June 30, 2021

(Thousands of yen)

	Six months ended June 30, 2020	Six months ended June 30, 2021
Net sales	3,107,731	2,879,446
Cost of sales	875,092	919,658
Gross profit	2,232,639	1,959,787
Selling, general and administrative expenses	1,056,189	1,141,354
Operating income	1,176,449	818,433
Non-operating income		
Interest income	1,812	175
Foreign exchange gains	-	235,337
Subsidies for employment adjustment	13,110	8,010
Other	1,101	21,044
Total non-operating income	16,024	264,568
Non-operating expenses		
Foreign exchange loss	14,616	-
Share issuance cost	30	159
Other	4,128	20
Total non-operating expenses	18,775	179
Ordinary income	1,173,697	1,082,821
Extraordinary losses		
Loss on sales of investment securities	-	34,825
Total extraordinary losses	-	34,825
Income before income taxes	1,173,697	1,047,996
Income taxes - current	236,387	95,483
Income taxes - deferred	46,946	181,983
Total income taxes	283,333	277,466
Net income	890,363	770,529

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Six months ended June 30, 2020	Six months ended June 30, 2021
Cash flow from operating activities		
Income (loss) before income taxes	1,173,697	1,047,996
Depreciation	277,916	305,498
Amortization of goodwill	10,128	-
Interest and dividend income	(1,812)	(175)
Foreign exchange losses (gains)	24,027	(75,987)
Share issuance cost	30	159
Loss (gain) on sales of investment securities	-	34,825
Decrease (increase) in notes and accounts receivable – trade	(1,315,836)	5,546,272
Decrease (increase) in inventories	(62,275)	(171,382)
Decrease (increase) in prepaid expenses	58,343	92,190
Decrease (increase) in accounts receivable - other	-	1,738,800
Increase (decrease) in notes and accounts payable - trade	37,306	57,643
Increase (decrease) in accounts payable - other	2,906	(1,712,956)
Increase (decrease) in accrued expenses	155,456	(303,462)
Increase (decrease) in advances received	770,417	663,509
Increase (decrease) in deposits received	29,217	(117,304)
Other, net	165,328	(555,110)
Subtotal	1,324,850	6,550,515
Interest and dividend income received	1,812	175
Income taxes paid	(2,766)	(1,591,819)
Income taxes refund	164	131
Net cash provided by (used in) operating activities	1,324,061	4,959,002
Cash flow from investing activities		
Proceeds from investment securities sold	-	145,222
Purchase of shares of subsidiaries and associates	(391,445)	-
Loan advances to subsidiaries and associates	(62,805)	(414,097)
Collection of long-term loans receivable	1,040	3,120
Subsidies received	136,323	136,323
Purchase of property, plant and equipment	(399,969)	(316,109)
Purchase of intangible assets	(8,550)	(4,770)
Net cash provided by (used in) investing activities	(725,405)	(450,310)
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	6,569	44,940
Purchase of treasury shares	(243,582)	(356)
Net cash provided by (used in) financing activities	(237,013)	44,583
Effect of exchange rate change on cash and cash equivalents	(24,027)	75,987
Net increase (decrease) in cash and cash equivalents	337,615	4,629,263
Cash and cash equivalents at beginning of period	6,986,722	7,149,358
Cash and cash equivalents at end of period	7,324,337	11,778,622

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.