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

November 11, 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
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Scheduled starting date of dividend payments: —
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 Nine Months Ended September 30, 2021 (January 1, 2021 to September 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	%
Nine Months ended September 30, 2021	7,763	102.5	4,416	342.4	4,719	401.7	3,363	379.6
Nine Months ended September 30, 2020	3,832	-	998	-	940	-	701	-

	Net income per share	Diluted net income per share
	Yen	Yen
Nine Months ended September 30, 2021	26.15	25.91
Nine Months ended September 30, 2020	5.58	5.40

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2021	27,896	24,761	88.5
As of December 31, 2020	26,266	21,217	80.5

(Reference) Equity As of September 30, 2021: 24,677 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 September 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 September 30, 2021	184,364 shares	As of December 31, 2020	193,694 shares
3) Average number of shares during the period	Nine months ended September 30, 2021	128,593,281 shares	Nine months ended September 30, 2020	125,651,762 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 September 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 (166,615 shares for the nine months ended September 30, 2020 and 188,056 shares for the nine months ended September 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 nine months ended September 30, 2021 (from January 1, 2021 to September 30, 2021), PeptiDream Inc. ("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 September 30, 2021, the Company's pipeline consisted of 123 discovery & development programs (representing a net increase of 1 program from the end of the prior fiscal quarter ending June 30, 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 September 30, 2021
Peptide drugs	75
Small molecule drugs	
Peptide drug conjugates ("PDCs")	48
Total	123

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 June 30, 2021	As of September 30, 2021
Target Validation-to-Hit Stage	40	39
Hit-to-Lead Stage	55	56
Lead-to-GLP-Tox Stage	16	16
GLP-Tox-to-IND Stage	9	9
Phase I	2	3
Phase II	0	0
Phase III	0	0
Total	122	123

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 July 27, 2021, the Company announced an expansion of its research collaboration and exclusive license agreement with Takeda to create peptide-drug conjugates (PDCs) for several central nervous system (CNS) targets, which play important roles in chronic neurodegenerative diseases. The Company and Takeda originally entered into a collaborative research and exclusive license agreement in December 2020 to create PDCs for neuromuscular diseases by conjugating peptides developed by the Company and JCR Pharmaceuticals Co., Ltd. that bind to human transferrin receptor 1 (TfR1) to specific drug payloads selected by Takeda. This new collaboration expands the use of the TfR1 binding peptide ligands for CNS targets associated with neurodegeneration allowing Takeda to conjugate the peptides with therapeutic cargoes optimized to cross the blood-brain barrier (BBB). A significant challenge to the development of effective medicines for neurodegenerative diseases is the ability to deliver therapeutic molecules across the BBB into the brain. Peptide carriers that bind to TfR1 when conjugated to various therapeutic payloads facilitate the transport of the payload across the BBB into the brain, and thereby significantly improve functional benefit. This TfR1 BBB shuttle approach has the potential to accelerate the development of therapies for which BBB penetration remains challenging. This approach may

also enable broad brain region biodistribution that is frequently needed to effectively treat many neurodegenerative diseases for which few, if any, effective drugs currently exist. Under the terms of the agreement, the Company is eligible to receive up to approximately $3.5 billion (JPY 390.3 billion) in total as upfront and potential preclinical, development, launch, and sales-based milestones. In addition to the above, the Company is also eligible to receive royalties on net sales of any product resulting from the collaboration.

On July 30, 2021, the Company announced a new license and collaboration agreement with the leading RNAi therapeutics company, Alnylam Pharmaceuticals ("Alnylam") to discover and develop peptide-siRNA conjugates to create multiple opportunities to deliver RNAi therapeutics to tissues outside the liver. The companies will collaborate to select and optimize peptides for targeted delivery of small interfering RNA (siRNA) molecules to a wide range of cell types and tissues via specific interactions with receptors expressed on the target cells. Under the terms of the alliance, Alnylam will select a set of receptors for the Company's peptide discovery platform, and the Company will select, optimize, and synthesize peptides for each receptor. Alnylam will then generate peptide-siRNA conjugates and perform in vitro and in vivo studies to support final peptide selection. The collaboration has the potential to yield multiple treatment opportunities by targeting disease causing mRNA transcripts in a wide variety of tissue types. Under the terms of the agreement, the Company received an upfront payment from Alnylam as well as R&D funding over the term of the research collaboration. The Company is also eligible to receive payments based on the achievement of specified development, regulatory, and commercial milestones potentially totaling up to $2.2 billion (¥244 billion). In addition, the Company is eligible to receive low-to-mid single digit royalties on sales on any such Alnylam products.

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 September 29, 2021, the Company announced receipt of a milestone payment in connection with the Technology Transfer of the PDPS technology to Janssen, under the original agreement signed in December 2020. The payment is for the successful technology transfer and operational establishment of the PDPS technology at Janssen.

As of September 30, 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 that bind to the transferrin receptor (TfR) and are 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 Company announced on July 27, 2021, a further expansion of the collaborative research and license agreement with Takeda Pharmaceutical Company extending into CNS Diseases. The companies are looking to conjugate the peptide carriers to a number of Takeda payloads, and the collaboration has the potential to yield a number of therapeutics products in the neuromuscular, muscular, and CNS disease space. The Company continues to discuss additional potential research and license agreements with various companies. 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 peptide 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 obtained 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. Using this approach, the companies have now identified highly selective and potent small molecule lead compounds for a specific high value kinase target and have recently completed in vivo proof of concept studies validating the lead candidate’s efficacy. The companies are jointly continuing preclinical development efforts, and actively discussing a variety of partnering and out-licensing options for the program.

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 are jointly

continuing preclinical development efforts, and actively discussing 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, whereas "BHV-1100 (ARM)" is a long-acting ARM and intended for a larger market of MM patients relapsed / refractory to 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 patients and received Orphan Drug Designation on September 8, 2020. BHV-1100 shows similar or better activity to Johnson & Johnson's Darzalex, with the significant advantage being that it does not deplete the patients CD38-expressing immune effector cells. While many recent advances have been made to benefit MM patients, most patients will unfortunately still relapse, and the Companies believe that BHV-1100 enabled NK cells will kill CD38-positive MM cells, and recruit other immune effector cells to assist in reducing the tumor burden. As announced on October 27, 20221, the first patient with MM has been enrolled. The clinical trial will assess the safety and tolerability, as well as exploratory efficacy endpoints, in newly diagnosed MM who have tested positive for minimal residual disease (MRD+) in first remission prior to autologous stem cell transplant (ASCT).

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 RIs 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 lead program in the collaboration continues to make progress and advance to the nomination of a clinical candidate, expected sometime in 2022. 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 companies have identified a number of lead candidates that are now being tested in in-vitro and ex-vivo models for efficacy.

The Company and Kawasaki Medical School are working to develop a novel Myostatin peptide inhibitor for the treatment of Duchenne Muscular Dystrophy ("DMD"). DMD is the most common type of muscular dystrophy, a fatal hereditary genetic disorder characterized by progressive weakness. Due to mutations in the dystrophin gene, dystrophin, which is important for maintaining muscle cells, becomes deficient or abnormal, with rapid muscle weakness in skeletal muscle and diaphragm resulting in difficulty with jumping, running, and walking, and later effecting the heart and respiratory muscles, which can eventually cause acute respiratory failure. It is a rare and fatal disease in which patients' quality of life is significantly reduced. Research and development efforts have largely focused on the discovery and development of antibody-based therapeutics and/or nucleic acid based therapeutics, such as gene therapy, exon skipping, stop codon read-through, and gene repair, spanning multiple mechanisms of action, and while exciting progress has been made, there is no current effective therapeutic that can be used to treat a wide range

of patients and be considered as a first line therapy, therefore there remains a significant unmet medical need for more broadly effective therapies for DMD. Myostatin (also known as growth differentiation factor 8, or GDF8) is a protein produced and released by myocytes that acts on muscle cells to inhibit muscle cell growth and is widely distributed in blood and muscle tissue (including diaphragm and extremity muscles) in normal individuals. Animals either lacking myostatin or that have been treated with myostatin inhibitors exhibit significantly more muscle mass and strength, and therefore represents an attractive target to inhibit to promote muscle growth and improve muscle function (stop or slow muscle degeneration), in patients with DMD and other muscle wasting diseases. The partners believe the current candidate could have a broad beneficial impact to all DMD patients and significantly increase their quality of life. Efforts in the discovery and development of myostatin inhibitors, largely focused on antibody-based therapeutics, and while they have shown significant promise in animal models, that promise has yet to translate into therapeutic benefits in humans for a variety of reasons. A constrained macrocyclic peptide-based myostatin inhibitor approach represents a potentially attractive alternative, as the current clinical candidate exhibits a high level of both potency and exposure in muscle tissue, both of which are known to be key attributes for any myostatin inhibitor. The partners plan to engage PeptiStar Inc., for candidate scale up and production of GLP/GMP batches, with the intention of conducting long-term safety studies, anticipating an entry into the clinic in 2023. Since DMD has been designated as a rare and intractable disease, the partners will work with the related agencies to seek priority review and shorten development timelines. The partners have initiated discussions with multiple potential partners for the joint development/partnering and/or out-licensing of the program.

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. The current lead candidate series is for the treatment of Tuberculosis, and the Company is currently focused on optimizing the lead candidates for orally bioavailability. One of the main advantages of the lead series is that it may be effective against dormant Tuberculosis. 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. On July 29, 2021 the Company announced the initiation of marketing of PG-001, a peptide alternative to human growth hormone (HGF) that has equivalent capabilities for both receptor activation and cell proliferation as HGF, as the first product originating from PeptiGrowth. PeptiGrowth is progressing a number of peptide alternative growth factor programs in parallel, with PG-002 expected to be launched in December 2021, and PG-003 to be launched in Q1, 2022, with additional products to follow.

The Company and RayzeBio are working to discover and development peptide- 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 RIs. 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, with the Company expecting to announce the first clinical candidate in 1H, 2022.

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 highly potent antiviral activity against conventional SARS-CoV-2, as well as mutant strains such as the Alpha, Beta, Gamma, and Delta mutant strains. An in vitro study also demonstrated high synergistic effectiveness when used in combination with drugs that are currently approved for emergency use in COVID-19 infection. The preclinical studies of PA-001, consisting of various general toxicity, safety pharmacology, and genotoxicity studies, have been completed on schedule, and the high safety of PA-001 has been confirmed. PeptiAID will prioritize acquisition of clinical data through an early-stage exploratory clinical research based on the Clinical Trials Act, with a view to optimizing the time required for overall clinical development and anticipating the possibility of early out-licensing. In November 2021, PeptiAID will complete the application to the Clinical Research Review Board, which is necessary to conduct clinical research, and expects to start clinical research in January 2022. The Company and PeptiAID are actively in

discussions with interested third parties on potential partnering or licensing of the program. PeptiAID raised additional JPY 803m in September 2021 and the Company holds a 39.4% equity stake in PeptiAID.

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. On September 9, 2021, the Company announced that Amolyt had exercised its option to globally license a portfolio of macrocyclic peptide growth hormone receptor antagonists (GHRA) under the terms of the research collaboration agreement with the Company announced in December 2020. The identified, optimized drug candidate, AZP-3813, is being developed as a potential treatment for acromegaly to be used in combination with somatostatin analogues (SSAs) for patients who do not adequately respond to SSAs alone. Amolyt is currently working to advance AZP-3813 through IND-enabling studies with the goal of filing an IND and initiating the first clinical trial by the end of 2022. On September 16, 2021, Amolyt announced the closing of an $80 million Series B round, with the funds to be used in part toward the development of AZP-3813.

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 continues to pursue a number of in-house fully owned programs. Some basic highlights are presented below.

The Hemagglutinin (HA) program for the treatment of influenza: The Company has previously identified highly selective potent lead candidates for the treatment of influenza. The lead candidate (referred to as PD-001) binds to the highly conserved stalk region of the influenza viral envelope protein HA, and shows strong broad efficacy against group 1 strains, including the H5N1 strain, and further enhanced potency in combination with existing influenza treatments, such as Tamiflu, in vivo animal studies. The Company has identified no preclinical toxicity for the lead candidates. The Company is actively discussing a variety of partnering and out-licensing options for the program.

IL17 and related inflammatory cytokine program(s) for inflammatory diseases: The Company has previously identified several highly selective potent lead candidates against a variety of pro-inflammatory cytokines for the potential treatment of a variety of inflammatory diseases. The Company is continuing preclinical development efforts against a number of high value pro-inflammatory targets, and has been investigating combining various candidates into bifunctional/multi-functional molecules (by linking peptides together into heterodimeric/multimeric peptide conjugates), as there is growing clinical evidence that antagonizing multiple pro-inflammatory pathways in parallel may represent a superior therapeutic strategy to the treatment of inflammatory disease, and the belief that peptides may represent a superior modality to bispecific antibodies toward this goal.

PDC programs for the treatment of cancer and other diseases: The Company has been actively working to develop a number of in-house fully owned peptide candidates to a variety of targets applicable to the treatment of cancer and/or specific tissue/organ targeting, for potential conjugation to radionuclide, siRNA, small molecule, etc., payloads, for use as PDCs. The Company now has a growing pipeline of promising candidates that have been optimized for high affinity, high selectivity, and stability, spanning a variety of cell membrane/receptor targets, with which the Company intends to take forward into in vivo bioimaging studies, which is critical to validating the effective targeting of such conjugates and their ability to effectively deliver the payload of interest. The recent Fujifilm Toyama Chemical radiopharmaceutical business acquisition, upon closing, will allow the Company to rapidly move the most promising candidates into such in vivo bioimaging studies, as the existing business has such capabilities, and based upon those results, the Company anticipates prioritizing the most promising programs with the goal of nominating clinical candidates for use in peptide-RI conjugates in 2H, 2022. Additionally, upon the in vivo cell/tissue targeting validation of candidates as peptide-RI conjugates, the Company intends to actively investigate other potential payloads, on its own or potentially in collaboration with various existing and/or new partners.

In the Radiopharmaceutical Business Segment;

On September 2, 2021, the Company announced its intention to fully acquire a newly established company ("New Company") that succeeds the radiopharmaceutical business ("acquired company") of Fujifilm Toyama Chemical through an absorption-type split, and to make the New Company a subsidiary of the Company under a share purchase agreement signed with FUJIFILM Corporation ("FUJIFILM"). The acquired Company, as part of FUJIFILM's healthcare business, engages in research, development, manufacturing and marketing of radiodiagnostics and radiotherapeutics. It is one of the two leading companies in radiopharmaceuticals in Japan and offers radiodiagnostic agents for SPECT (Single Photon Emission Computed Tomography) and for PET (Positron Emission Tomography) and radiotherapeutics, such as, Lutathera® Injection, developed by the acquired company, which received marketing authorization on June 23, 2021 as a new therapeutic option against neuroendocrine tumors and became the first approved peptide-radionuclide conjugate or Peptide Receptor Radionuclide Therapy (PRRT) in Japan. The acquired company has facilities in Chiba, Kawasaki (Kanagawa), and Ibaraki (Osaka), Japan, a staff of roughly 500 employees (across research, development, manufacturing, and marketing functions), and currently markets 24 approved radiodiagnostic products and 8 approved radiotherapeutic products and forecasts 2021 net sales of around 15 billion JPY (approximately $140-150 million).

The Company has been employing its proprietary PDPS discovery platform, to identify highly potent and selective hit macrocyclic peptide candidates for use in peptide-drug conjugate (PDC) therapeutics. The Company has been actively engaged in the discovery and development of peptide-RI conjugates for use as radiodiagnostics and radiotherapeutics in collaboration with BMS (radiodiagnostics), Bayer (radiodiagnostics), NMP (radiodiagnostics/therapeutics), Novartis (radiodiagnostics/therapeutics), and RayzeBio (radiodiagnostics/therapeutics), and has established itself as one of the major players in the discovery and development of such products. In addition, the Company has also recently been working to develop an in-house pipeline of fully-owned peptide-RI conjugates, in addition to its in-house PDC efforts.

The Company anticipates significant synergies from the acquisition, as the acquired company possess advanced technologies and know-how in radionuclides, pre-clinical and clinical development, manufacturing, approval, and marketing capabilities, along with a track record of in-licensing and commercialization of radiopharmaceuticals from overseas partners. The Company possesses experience and know-how in discovering and developing the carrier peptides to deliver the radionuclides selectively to targeted cells and tissues, enabling the continuous discovery of next-generation radiopharmaceuticals to feed into the pipeline, and the ability to leverage its global network of partners (both existing and future) to strengthen and accelerate both in-licensing and out-licensing activities. By combining the strengths and capabilities of the two companies, the Company believes it can not only significantly accelerate its own in-house peptide-RI conjugates programs, leading to higher value out-licensing/partnering deals, while retaining Japan commercialization rights, but also leverage those programs to maximize in-licensing activities. The acquisition will not only strengthen the Company's position in the radiopharmaceutical space, but also allow the Company to unlock more of its core value faster by enhancing all of its PDC programs (in which verification of specific cell or tissue targeting of the peptide conjugate in appropriate models, which is best done using RI payloads, represents a critical validation step for any PDC program, irrespective of payload), while providing the Company more control over the clinical development of its programs. Once the acquisition is completed, the Company intends to provide greater detail on the radiopharmaceutical business, including the discovery and development pipeline, in future quarterly reports.

The Company expects to close the deal in March 2022. As announced on October 26, 2021, the Company expects to finance the acquisition (30.5 billion yen) through a combination of long-term loans/borrowing from leading financial institutions.

Other Information Related to the Company;

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 15 2021, the Company announced that the Sustainability and Governance Committee was established to further promote these ESG efforts at the core of management and continue to deliberate and monitor issues related to sustainability and governance from a medium- to long-term perspective.

In order to ensure that the 2℃ goal under the Paris Agreement is achieved, the Company had set a goal to decrease GHG emissions (Scope 1 and Scope 2) per employee by 50%, compared to the fiscal year ended June 2018, by the year 2030. The Company newly adopted the RCP8.5 scenario (IPCC), which is the highest scenario for future climate change, with reference to the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD) and conducted an analysis on the impact of climate change from a medium-term perspective until 2026. The Company will continue to strengthen governance on measures to address climate change, implement scenario analysis based on risks/opportunities analysis and their financial impact, respond to climate change risks and opportunities, and engage in further enhancement of disclosure, with the goal to achieve "carbon neutral" within its operations by 2026.

On September 14. 2021, the Company announced selection to apply to the new market segment “Prime Market” on the Tokyo Stock Exchange (TSE).

On September 17, 2021, the Company announced that it was successful in its bid for Lots 2-11 and 2-12 (Address: 3-chome, Tonomachi, Kawasaki-ku, Kawasaki City, Kanagawa) in the public tender for land that was conducted by the Urban Renaissance Agency as follows: Location: 102-20 and 102-21, 3-chome, Tonomachi, Kawasaki-ku, Kawasaki City, Kanagawa, Land area: 11,635.60 m2, Bid-winning price: 3.2 billion yen. KING SKYFRONT has been designated as an international strategic zone and the Keihin-Rinkai Life Innovation Comprehensive Global Strategic Special Zone. It is an open innovation hub for the creation of new industries based on world-class R&D in life science fields that are expected to grow globally. Following the successful bid, the Company will conclude a land purchase agreement with the Urban Renaissance Agency. The Company plans to expand the Company's head office and research laboratory on the land, and to strengthen and expand its drug discovery and development functions, in light of strong growth across its collaboration, strategic partnership, and in-house discovery and development businesses. Details of the plan will be announced as soon as they are finalized. The Company intends to finance the purchase of the land and the construction of the future building using funds on hand and long-term loans from financial institutions.

As of September 30, 2021, the Company had a total of 169 employees (176 employees when including executive officers; approximately 40% of employees are women), representing an addition of 1 employee during the Q3 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 7,763,092 thousand yen (increased 3,930,246 thousand yen year on year), operating income of 4,416,596 thousand yen (increased 3,418,181 thousand yen year on year), ordinary income of 4,719,477 thousand yen (increased 3,778,757 thousand yen year on year), and net income of 3,363,003 thousand yen (increased 2,661,854 thousand yen year on year) for the nine months ended September 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 third quarter ended September 30, 2021 increased by 1,629,455 thousand yen from the end of the previous fiscal year to 27,896,184 thousand yen. This was mainly because an increase of 5,087,245 thousand yen in cash and deposits, despite a decrease of 3,806,185 thousand yen in accounts receivable – trade.

Liabilities decreased by 1,914,898 thousand yen from the end of the previous fiscal year to 3,134,825 thousand yen. This was mainly because a decrease of 659,319 thousand yen in accounts payable – other and a decrease of 1,203,432 thousand yen in income taxes payable, despite an increase of 241,060 thousand yen in advances received.

Net assets increased by 3,544,353 thousand yen from the end of the previous fiscal year to 24,761,358 thousand yen. This was mainly because retained earnings increased by 3,363,003 thousand yen as net income increased.

2) Analysis of status of cash flows

Cash and cash equivalents for the nine months ended September 30, 2021 increased by 5,087,245 thousand yen from the end of the previous fiscal year to 12,236,604 thousand yen.

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

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 6,622,237 thousand yen (a 4,714,614 thousand yen increase in inflow year on year). This was mainly due to a decrease in notes and accounts receivable – trade of 3,806,185 thousand yen and a decrease in accounts receivable – other of 1,738,800 thousand yen, despite the factors including income taxes paid amounting to 2,391,619 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 1,702,519 thousand yen (a 950,754 thousand yen increase in outflow year on year). This was mainly due to an outflow of 506,000 thousand yen for purchase of shares of subsidiaries and associates, an outflow of 414,097 thousand yen for loan advances to subsidiaries and associates and an outflow of 1,054,846 thousand yen for purchase of property, plant and equipment, despite the factors including 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 after the state of emergency was lifted, 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 November 11, 2021, PeptiAID announced the completion of preclinical studies of the Company's PA-001 candidate. PeptiAID is proceeding with the application process for the start of clinical research in January 2022. 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 nine months ended September 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 88.5%, and cash and cash equivalents of 12,236 million yen (as of the end of September 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 nine months ended September 30, 2020	Results for the full year ended December 31, 2020	Results for the nine months ended September 30, 2021	Forecasts for the full year ending December 31, 2021
	2019/July ~ 2019/Dec	2020/Jan ~ 2020/Sep	2020/Jan ~ 2020/Dec	2021/Jan ~ 2021/Sep	2021/Jan ~ 2021/Dec
Capital expenditures (million yen)	140	500	566	418	500
Depreciation expense (million yen)	246	417	559	465	631
Research and development expenses (million yen)	893	964	1,460	1,064	1,890
Year-end headcount (employees*)	130	153	157	176	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 September 30, 2021**
(1) New drugs* launched (approved)	4 or more	0
(2) Number of clinical programs	32 or more	3
(3) Number of preclinical drug discovery programs	160 or more	120
(4) Number of employees	220 or more	176
(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 September 30, 2021
Assets		
Current assets		
Cash and deposits	7,149,358	12,236,604
Accounts receivable – trade	5,655,460	1,849,275
Raw materials and stocks	585,981	837,324
Prepaid expenses	253,843	168,223
Other	1,996,877	159,477
Total current assets	15,641,520	15,250,904
Non-current assets		
Property, plant and equipment		
Buildings, net	3,623,989	3,508,449
Structures, net	148,703	139,297
Tools, furniture and fixtures, net	1,089,535	1,185,855
Land	904,628	904,628
Construction in progress	-	644,400
Total property, plant and equipment	5,766,856	6,382,631
Intangible assets		
Software	77,192	54,070
Other	1,491	14,624
Total intangible assets	78,683	68,694
Investments and other assets		
Investment securities	3,413,342	3,952,249
Shares of subsidiaries and associates	691,445	1,197,445
Long-term loans receivable	89,598	84,916
Long-term loans receivable from subsidiaries and associates	62,805	476,902
Long-term prepaid expenses	8,921	5,772
Deferred tax assets	505,013	465,867
Other	8,541	10,799
Total investments and other assets	4,779,667	6,193,952
Total non-current assets	10,625,208	12,645,279
Total assets	26,266,729	27,896,184
Liabilities		
Current liabilities		
Accounts payable – trade	55,276	122,819
Accounts payable – other	1,895,157	1,235,837
Accrued expenses	589,546	374,096
Income taxes payable	1,709,327	505,894
Advances received	319,944	561,004
Deposits received	136,777	22,055
Total current liabilities	4,706,030	2,821,709
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	3,134,825

(Thousands of yen)

	As of December 31, 2020	As of September 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	17,299,862
Treasury stock	(655,383)	(625,162)
Total shareholders' equity	21,145,528	24,584,458
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(13,128)	92,900
Total valuation and translation adjustments	(13,128)	92,900
Subscription rights to shares	84,604	84,000
Total net assets	21,217,004	24,761,358
Total liabilities and net assets	26,266,729	27,896,184

(2) Quarterly Statements of Income

Nine months ended September 30, 2020 and September 30, 2021

(Thousands of yen)

	Nine months ended September 30, 2020	Nine months ended September 30, 2021
Net sales	3,832,846	7,763,092
Cost of sales	1,287,468	1,644,162
Gross profit	2,545,377	6,118,929
Selling, general and administrative expenses	1,546,962	1,702,333
Operating income	998,414	4,416,596
Non-operating income		
Interest income	2,162	279
Foreign exchange gains	-	273,727
Subsidies for employment adjustment	16,875	8,010
Other	1,101	21,044
Total non-operating income	20,139	303,060
Non-operating expenses		
Foreign exchange loss	73,674	-
Share issuance cost	30	159
Other	4,128	20
Total non-operating expenses	77,834	179
Ordinary income	940,719	4,719,477
Extraordinary losses		
Loss on sales of investment securities	-	34,825
Total extraordinary losses	-	34,825
Income before income taxes	940,719	4,684,651
Income taxes - current	150,047	1,282,501
Income taxes - deferred	89,523	39,146
Total income taxes	239,571	1,321,648
Net income	701,148	3,363,003

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Nine months ended September 30, 2020	Nine months ended September 30, 2021
Cash flow from operating activities		
Income (loss) before income taxes	940,719	4,684,651
Depreciation	417,828	465,943
Amortization of goodwill	11,815	-
Interest and dividend income	(2,162)	(279)
Foreign exchange losses (gains)	67,750	(122,943)
Share issuance cost	30	159
Loss (gain) on sales of investment securities	-	34,825
Decrease (increase) in notes and accounts receivable – trade	220,027	3,806,185
Decrease (increase) in inventories	(103,091)	(251,342)
Decrease (increase) in prepaid expenses	(166,214)	88,768
Decrease (increase) in accounts receivable – other	-	1,738,800
Increase (decrease) in notes and accounts payable – trade	57,910	67,542
Increase (decrease) in accounts payable – other	(901)	(662,344)
Increase (decrease) in accrued expenses	153,218	(215,449)
Increase (decrease) in advances received	337,993	241,060
Increase (decrease) in deposits received	817	(114,721)
Other, net	(19,718)	(747,409)
Subtotal	1,916,021	9,013,446
Interest and dividend income received	2,162	279
Income taxes paid	(10,725)	(2,391,619)
Income taxes refund	164	131
Net cash provided by (used in) operating activities	1,907,623	6,622,237
Cash flow from investing activities		
Proceeds from investment securities sold	-	145,222
Purchase of shares of subsidiaries and associates	(391,445)	(506,000)
Loan advances to subsidiaries and associates	(62,805)	(414,097)
Collection of long-term loans receivable	2,600	4,681
Subsidies received	136,323	136,323
Purchase of property, plant and equipment	(428,088)	(1,054,846)
Purchase of intangible assets	(8,350)	(13,857)
Other, net	-	55
Net cash provided by (used in) investing activities	(751,764)	(1,702,519)
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	(67,750)	122,943
Net increase (decrease) in cash and cash equivalents	851,094	5,087,245
Cash and cash equivalents at beginning of period	6,986,722	7,149,358
Cash and cash equivalents at end of period	7,837,817	12,236,604

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.