

Non-consolidated Financial Results for the Fiscal Year Ended July 31, 2019 [Japanese GAAP]

September 12, 2019

Company name: StemRIM Stock exchange listing: Tokyo Stock Exchange
 Stock code: 4599 URL <https://stemrim.com/>
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 Scheduled date of Ordinary General Meeting of Shareholders: October 24, 2019
 Scheduled filing date of securities report: October 25, 2019
 Scheduled date of commencing dividend payments: —
 Supplementary briefing materials on financial results: Yes
 Explanatory meeting on financial results: Yes

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

1. Financial Results for the Fiscal Year Ended July 31, 2019 (August 1, 2018 to July 31, 2019)

(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	%
Fiscal Year ended July 31, 2019	100	△50.0	△726	—	△722	—	△721	—
Fiscal Year ended July 31, 2018	200	△33.3	△375	—	△327	—	△323	—

	Net income per share	Diluted net income per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Fiscal Year ended July 31, 2019	△16.85	—	△32.3	△31.3	△726.9
Fiscal Year ended July 31, 2018	△8.47	—	△22.6	△22.1	△187.6

(Reference) Equity in earnings (losses) of affiliates Fiscal Year ended July 30, 2019 —Million yen
 Fiscal Year ended July 30, 2018 —Million yen

(Note) Diluted net income per share is not stated, despite the existence of potential shares, due to the posting of net loss per share.

(Note) The Company conducted a Hundred-for-one common stock split effective on February 28, 2019. and a three-for-one common stock split effective on March 8, 2019. Net income per share and the number of shares outstanding are calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Fiscal Year ended July 31, 2019	2,687	2,595	96.5	58.62
Fiscal Year ended July 31, 2018	1,924	1,872	97.3	47.44

(Reference) Equity Fiscal Year ended July 30, 2019 2,595Million yen
 Fiscal Year ended July 30, 2018 1,872Million yen

(Note) The Company conducted a Hundred-for-one common stock split effective on February 28, 2019. and a three-for-one common stock split effective on March 8, 2019. Net income per share and the number of shares outstanding are calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(3) Cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
Fiscal Year ended July 31, 2019	△777	△6	1,437	2,496
Fiscal Year ended July 31, 2018	△260	—	1,200	1,843

2. Payment of Dividends

	Annual dividends					Total dividends (Annual)	Dividend payout ratio	Dividends to 1st net assets
	1st net assets quarter-end	2nd net assets quarter-end	3rd net assets quarter-end	Year-end Total	Total			
Fiscal Year ended July 31, 2019	Yen —	Yen —	Yen —	Yen 0.00	Yen 0.00	Million yen —	% —	% —
Fiscal Year ended July 31, 2018	—	—	—	0.00	0.00	—	—	—
Fiscal Year ended July 31, 2020 (forecast)	—	—	—	0.00	0.00		—	

3. Financial Forecasts for the Fiscal Year Ending July 31, 2019 (August 1, 2019 to July 31, 2020) and the Fiscal Year Ending July 31, 2020 (August 1, 2019 to July 31, 2020)

(% indicates changes from the previous corresponding period)

Year-end	Net Sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen 400	%	Million yen △1,090	%	Million yen △1,134	%	Million yen △1,137	%	Yen △21.68

※[Notes]

(1) 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 |

(2) Number of shares issued (common stock)

① Number of shares issued at the end of the period (including treasury stock)	Fiscal Year ended July 31, 2019	44,282,700 Shares	Fiscal Year ended July 31, 2018	39,466,200 Shares
② Number of treasury stock at the end of the period	Fiscal Year ended July 31, 2019	— Shares	Fiscal Year ended July 31, 2018	— Shares
③ Average number of shares during the period	Fiscal Year ended July 31, 2019	42,799,200 Shares	Fiscal Year ended July 31, 2018	38,215,800 Shares

(Note) The Company conducted a Hundred-for-one common stock split effective on February 28, 2019, and a three-for-one common stock split effective on March 8, 2019. Net income per share and the number of shares outstanding are calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(Note) These financial results are outside the scope of audit 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.

(Caution regarding forward-looking statements)

The Company plans to hold an explanatory meeting on financial results for institutional investors on September 13, 2019 and intends to publish the presentation handout materials on its website immediately after the event.

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1. Analysis of Operating Results and Financial Position

(1) Overview of Business Results for the Fiscal Year Under Review

Regarding our business overview, the company has promoted research and development toward the realization of the “Regeneration-inducing Medicine” that the company has been aiming for since the founding. “Regeneration-inducing Medicine” is a drug based on a new mechanism of action that promotes the functional regeneration and healing of tissues that have been damaged by injury or disease.

As for the progress of this fiscal year (August 1, 2018 to July 31, 2019), investigator-initiated clinical trial phase2 for epidermolysis bullosa, an intractable hereditary skin disease, started in December 2017 have progressed as planned at Osaka University Hospital, Keio University Hospital, and Toho University Medical Center. Also, in April 2019, a corporate clinical trial phase2 for cerebral infarction of HMGB1 peptide started as planned by Shionogi & Co., Ltd.

In addition to the indications in the two preceding clinical trials, the efficacy of HMGB1 peptide has been confirmed against multiple target diseases, and research and development toward the realization of “Regeneration-inducing Medicine” has been steadily promoted.

Under these circumstances, the Company received milestone revenue based on the license agreement for HMGB1 peptide concluded with Shionogi Pharmaceutical Co., Ltd., and the operating revenue for the current fiscal year was 100,000 thousand yen (the operating revenue in previous fiscal year was 200,000 thousand yen). Operating loss was 726,861 thousand yen as a result of recording SG & A expenses and general administrative expenses of 826,861 thousand yen including R&D expenses for further business promotion of 640,200 thousand yen (the operating loss in the previous fiscal year was 375,141 thousand yen).

In addition, as a result of recording subsidy revenue from The Small and Medium Enterprise Agency, etc., the ordinary loss was 722,594 thousand yen (the ordinary loss was 327,338 thousand yen in the previous fiscal year), net loss was 721,209 thousand yen (the net loss in the previous fiscal year was 323,822 thousand yen).

The Company consists of a single business segment, Regeneration-inducing Medicine business. Therefore, description of business performance by segment is omitted.

(2) Overview of Financial Position for the Fiscal Year Under Review

(Asset)

Total current assets at the end of the current fiscal year amounted to 2,669,080 thousand yen, an increase of 756,250 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 653,018 thousand yen in cash and deposits. Fixed assets totaled 18,780 thousand yen, an increase of 6,827 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 2,988 thousand yen in property, plant and equipment, an increase of 1,393 thousand yen in intangible assets, and an increase of 2,446 thousand yen in investments and other assets. As a result, total assets were 2,687,861 thousand yen, an increase of 763,078 thousand yen from the end of the previous fiscal year.

(Liabilities)

Total current liabilities at the end of the current fiscal year were 75,634 thousand yen, an increase of 33,344 thousand yen from the end of the previous fiscal year. This was mainly due to an increase in income taxes payable of 17,950 thousand yen and an increase in accounts payable of 8,210 thousand yen. Noncurrent liabilities totaled 16,322 thousand yen, an increase of 5,993 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 10,447 thousand yen in lease obligations, despite a decrease of 2,521 thousand yen in deferred tax liabilities. As a result, total liabilities were 119,492 thousand yen, an increase of 66,874 thousand yen from the end of the previous fiscal year.

(Net assets)

Net assets at the end of the third quarter were 2,811,465 thousand yen, an increase of 939,302 thousand yen from the end of the previous fiscal year. This was due to an increase of 722,475 thousand yen in capital and capital surplus due to the third-party allotment, although retained earnings decreased by 505,647 thousand yen due to net loss.

(3) Overview of Cash Flows for the Fiscal Year Under Review

Cash and cash equivalents (hereinafter referred to as “cash”) for the current fiscal year were 1,843,404 thousand yen, an increase of 939,084 thousand yen from the end of the previous fiscal year.

Net cash used in operating activities was 777,789 thousand yen (outflow of 260,976 thousand yen in the previous fiscal year). This was mainly due to the increase in research grant income of 23,120 thousand yen, but the decrease of 722,594 thousand yen in pre-tax net loss and the increase in prepaid expenses of 91,545 thousand yen.

Net cash used as a result of investing activities amounted to 6,553 thousand yen (no previous fiscal year). This is due to the acquisition of fixed assets.

Net cash provided by financing activities was 1,437,374 thousand yen (inflow of 1,200,057 thousand yen in the previous fiscal year). This is due to the issuance of shares.

(4) Forecast for the future

As for the outlook for the next fiscal year, we expect milestone revenues obtained from a license agreement with Shionogi & Co., Ltd. regarding HMGB1 peptide. In addition, we plan to increase R&D expenses to promote the development of Regeneration-inducing Medicine for HMGB1 peptide and the search for new candidate substances. As a result, the company expects operating revenue of 400 million Yen, operating loss of 1,090,000 million Yen, ordinary loss and net loss of 1,134 million Yen.

(5) Notes regarding going concern assumption

None

2. Basic Approach to Accounting Standards

The Company will prepare its financial statements based on Japanese GAAP for the time being, given its comparability from period to period and between companies.

The Company plans to appropriately respond to the application of International Financial Reporting Standards (IFRS) upon considering the circumstances in Japan and overseas.

3. Financial Statements

(1) Balance Sheets

(Thousands of yen)

	As of July 31, 2018	As of July 31, 2018
Assets		
Current assets		
Cash and deposits	1,843,404	2,496,422
Raw materials and stocks	10,345	12,648
Prepaid expenses	19,760	109,651
Other	39,319	50,356
Total current assets	1,912,829	2,669,080
Non-current assets		
Property, plant and equipment		
Buildings, Net	6,580	6,313
Tools, furniture and fixtures, Net	157	3,413
Total property, plant and equipment	6,738	9,727
Intangible assets		
Software	—	1,393
Total intangible assets	—	1,393
Investments and other assets		
Long-term prepaid expenses	—	1,940
Leasehold and guarantee deposits	5,214	5,719
Total investments and other assets	5,214	7,660
Total non-current asset	11,952	18,780
Total assets	1,924,782	2,687,861

(Thousands of yen)

	As of July 31, 2018	As of July 31, 2018
Liabilities		
Current liabilities		
Accounts payable-other	26,636	34,846
Accrued expenses	12,316	15,955
Income taxes payable	1,568	19,518
Lease obligations	—	2,903
Deposits received	1,768	2,410
Total current liabilities	42,289	75,634
Non-current liabilities		
Lease obligations	—	9,714
Asset retirement obligations	5,777	5,881
Deferred tax liabilities	4,551	726
Total Non-current liabilities	10,329	16,322
Total liabilities	52,618	91,956
Net assets		
Shareholders' equity		
Capital stock	90,000	812,475
Capital surplus		
Legal capital surplus	2,080,090	2,802,565
Total capital surplus	2,080,090	2,802,565
Retained earnings		
Other retained earnings		
Reserve for special depreciation	7,058	—
Retained earnings brought forward	△304,985	△1,019,135
Total retained earnings	△297,926	△1,019,135
Total shareholders' equity	1,872,163	2,595,904
Total net assets	1,872,163	2,595,904
Total liabilities and net assets	1,924,782	2,687,861

(2) Statements of Income

(Thousands of yen)

	As of July 31, 2018	As of July 31, 2018
Operating revenue	200,000	100,000
Operating expenses		
Research and development expenses	453,270	640,200
Other selling, general and administrative expenses	121,870	186,661
Total operating expenses	575,141	826,861
Operating loss (△)	△375,141	△726,861
Non-operating income		
Interest and dividend income	4	15
Subsidy income	52,250	9,570
Foreign exchange gains	3	15
Miscellaneous income	316	184
Total non-operating income	52,575	9,785
Non-operating expenses		
Interest expenses	—	304
Share issuance cost	4,772	5,213
Total non-operating expenses	4,772	5,518
Ordinary loss (△)	△327,338	△722,594
Loss before income taxes (△)	△327,338	△722,594
Income taxes - current	1,569	2,440
Income taxes - deferred	△5,084	△3,824
Total income taxes	△3,515	△1,384
Net loss (△)	△323,822	△721,209

(3) Statements of Changes in Equity

(Thousands of yen)

	Shareholders' equity		
	Capital stock	Capital surplus	
		Legal capital surplus	Total capital surplus
Balance at the beginning of current period	90,000	875,260	875,260
Changes of items during period			
Issuance of new shares	602,415	602,415	602,415
Capital reduction	△602,415	602,415	602,415
Net loss (△)			
Reversal of reserve for special depreciation			
Net changes of items other than shareholders' equity			
Total changes of items during period	—	1,204,830	1,204,830
Balance at the end of current period	90,000	2,080,090	2,080,090

	Shareholders' equity				Total net assets
	Retained earnings			Total shareholders' equity	
	Retained earnings brought forward		Total retained earnings		
	Reserve for special depreciation	Retained earnings brought forward			
Balance at the beginning of current period	14,094	11,802	25,896	991,156	991,156
Changes of items during period					
Issuance of new shares				1,204,830	1,204,830
Capital reduction				—	—
Net loss (△)		△323,822	△323,822	△323,822	△323,822
Reversal of reserve for special depreciation	△7,035	7,035	—	—	—
Net changes of items other than shareholders' equity					—
Total changes of items during period	△7,035	△316,787	△323,822	881,007	881,007
Balance at the end of current period	7,058	△304,985	△297,926	1,872,163	1,872,163

(Thousands of yen)

	Shareholders' equity		
	Capital stock	Capital surplus	
		Legal capital surplus	Total capital surplus
Balance at the beginning of current period	90,000	2,080,090	2,080,090
Changes of items during period			
Issuance of new shares	722,475	722,47	72

(Thousands of yen)

	Shareholders' equity		
	Capital stock	Capital surplus	
		Legal capital surplus	Total capital surplus
Net loss (Δ)			
Reversal of reserve for special depreciation			
Net changes of items other than shareholders' equity			
Total changes of items during period	722,475	722,475	722,475
Balance at the end of current period	812,475	2,802,565	2,802,565

	Shareholders' equity				Total net assets Retained earnings Total retained earnings Reserve for special depreciation
	Retained earnings			Total shareholders' equity Retained earnings brought forward Retained earnings brought forward	
	Retained earnings brought forward		Total retained earnings Reserve for special depreciation		
	Reserve for special depreciation	Retained earnings brought forward			
Balance at the beginning of current period	7,058	Δ304,985	Δ297,926	1,872,163	1,872,163
Changes of items during period					
Issuance of new shares				1,444,950	1,444,950
Net loss (Δ)		Δ721,209	Δ721,209	Δ721,209	Δ721,209
Reversal of reserve for special depreciation	Δ7,058	7,058	—	—	—
Net changes of items other than shareholders' equity					—
Total changes of items during period	Δ7,058	Δ714,150	Δ721,209	723,740	723,740
Balance at the end of current period	—	Δ1,019,135	Δ1,019,135	2,595,904	2,595,904

(4) Statements of Cash Flows

(Thousands of yen)

	Fiscal year ended July 31, 2018	Fiscal year ended July 31, 2019
Cash flow from operating activities		
Income before income taxes	△327,338	△722,594
Depreciation	1,116	1,666
Interest and dividend income	△4	△15
Subsidy income	△52,250	△9,570
Foreign exchange losses (gains)	△3	13
Share issuance cost	4,772	5,213
Decrease (increase) in inventories	△10,345	△2,303
Decrease (increase) in prepaid expenses	46,527	△91,545
Decrease (increase) in consumption taxes refund receivable	△476	△22,745
Increase (decrease) in accounts payable- other	202	8,210
Increase (decrease) in accrued expenses	2,739	3,638
Other, net	4,558	30,587
Subtotal	△330,503	△799,444
Interest and dividend income received	4	15
Subsidies received	37,233	23,210
Income taxes paid	△210	△1,571
Income taxes refund	32,500	0
Net cash provided by (used in) operating activities	△260,976	△777,789
Cash flows from investing activities		
Purchase of property, plant and equipment	—	△6,048
Payments of leasehold and guarantee deposits	—	△505
Net cash provided by (used in) investing activities	—	△6,553
Cash flow from financing activities		
Repayments of lease obligations	—	△2,362
Proceeds from issuance of shares	1,200,057	1,439,736
Net cash provided by (used in) financing activities	1,200,057	1,437,374
Effect of exchange rate change on cash and cash equivalents	3	△13
Net increase (decrease) in cash and cash equivalents	939,084	653,018
Cash and cash equivalents at beginning of period	904,319	1,843,404
Cash and cash equivalents at end of period	1,843,404	2,496,422

(5) Notes to Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Segment information, etc.)

[Segment information]

The Company operates in a single business segment, the Regeneration-inducing Medicines Business segment. As such, statements for segment information are omitted because of immateriality

(Per share information)

	Fiscal year ended July 31, 2018	Fiscal year ended July 31, 2019
Net assets per share	47.44円	58.62円
Net income per share	△8.47円	△16.85円

(注) 1. Diluted net income per share is not stated, despite the existence of potential shares, due to the posting of net loss per share and as average market prices during the period could not be calculated because shares of the Company were not listed on any stock exchange during the period.

2. The Company conducted a 100-for-1 common stock split effective on February 28, 2019, and a 3-for-1 common stock split effective on March 8, 2019. Net income per share and the number of shares outstanding are calculated as if this stock split had taken place at the beginning of the previous fiscal year.

3. Net loss per share and diluted net income per share are calculated based on the following basis:

	Fiscal year ended July 31, 2018	Fiscal year ended July 31, 2019
Net loss per share (thousands of yen)	△323,822	△721,209
Net loss not attributable to common shareholders (thousands of yen)	—	—
Net loss related to common stock (thousands of yen)	△323,822	△721,209
Average number of common stock during the period (shares)	38,215,800	42,799,200
Dilutive shares that do not have a diluting effect and thus were not included in the calculation of diluted net income per share	Eleventh series stock acquisition rights (Number of stock acquisition rights: 28,250)	Eleventh series stock acquisition rights (Number of stock acquisition rights: 28,250)

4. Net assets per share are calculated based on the following basis:

	As of July 31, 2018	As of July 31, 2019
Total net assets (thousands of yen)	1,872,163	2,595,904
Amounts deducted from total net assets (thousands of yen)	—	—
Amounts of net assets related to common stock at the end of the period (thousands of yen)	1,872,163	2,595,904
Number of common stock at the end of the period used for the calculation of net assets per share (shares)	39,466,200	44,282,700

(Significant subsequent events)

[Issuance of shares]

The Company has received payment on August 9, 2019 for new shares through the public offering based on resolutions at meetings of the Board of Directors held on July 5 and 24, 2019. Accordingly, the number of issued shares, the amount of capital stock and legal capital surplus have increased.

- ① Type and number of shares for subscription Common shares 8,100,000 shares
- ② Issue price ¥ 1,000 per share
- ③ Subscription price ¥930 per share
- ④ Total issue price ¥8,100,000 thousand
- ⑤ Total subscription price ¥7,533,000 thousand
- ⑥ Increase Capital stock and Capital surplus Capital stock ¥3,766,500 thousand, Capital surplus ¥3,766,500 thousand,
- ⑦ Payment date August 8 2019
- ⑧ Fund usage The Company plans to use the funds as working funds for Research laboratory and Animal experimentation facility, R&D expenses.

[Capital increase through third-party allocation]

The Company has received payment on August 9, 2019 for new shares through the public offering based on resolutions at meetings of the Board of Directors held on July 5 and 24, 2019. With regard to the issuance of new shares through a third-party allotment related to the offering of the Company's shares by way of over-allotment, the Company has received payment on September 11, 2019.

- ① Type and number of shares for subscription Common shares 272,100 shares
- ② Allotment price ¥930 per share
- ③ Total allotment price ¥253,053 thousand
- ④ Increase Capital stock and Capital surplus Capital stock ¥126,526 thousand, Capital surplus ¥126,526 thousand,
- ⑤ Allottee and the number of shares allotted SMBC Nikko Securities Inc. 272,100 shares
- ⑥ Payment date September 11, 2019.
- ⑦ Fund usage The Company plans to use the funds as working funds for Research laboratory and Animal experimentation facility, R&D expenses.