

Non-consolidated Financial Results for the Three Months Ended October 31, 2019 [Japanese GAAP]

December 12, 2019

Company name: StemRIM Inc.
 Stock exchange listing: Tokyo Stock Exchange
 Stock code: 4599
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Scheduled date of filing quarterly securities report: December 13, 2019
 Scheduled date of commencing dividend payments: —
 Supplementary briefing materials on financial results: No
 Explanatory meeting on financial results: No

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

1. Financial Results for the Three Month Ended October 31, 2019 (August 1, 2019 to October 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 | % |
| Three months ended October 31, 2019 | — | — | △216 | — | △271 | — | △272 | — |
| Three months ended October 31, 2018 | — | — | — | — | — | — | — | — |

| | Net income per share | Diluted net income per share |
|-------------------------------------|----------------------|------------------------------|
| | Yen | Yen |
| Three months ended October 31, 2019 | △5.25 | — |
| Three months ended October 31, 2018 | — | — |

Notes: 1. Since the Company did not disclose quarterly financial results for the first quarter of the fiscal period ending July 2019, the figures for the first quarter of the fiscal period ending July 2019 and the year-on-year changes for the first quarter are not stated herein.

2. Diluted net income per share is not stated because of a net loss per share.

(2) Financial position

| | Total assets | Net assets | Equity ratio |
|-------------------------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| Three months ended October 31, 2019 | 10,181 | 10,109 | 99.2 |
| Fiscal Year ended July 31, 2019 | 2,687 | 2,595 | 96.5 |

(Reference) Equity capital: Three months ended October 31, 2019 10,109 Million yen
Fiscal Year ended July 30, 2018 2,595 Million yen

2. Payment of Dividends

| | Annual dividends | | | | |
|--|----------------------------|----------------------------|----------------------------|----------------|-------|
| | 1st net assets quarter-end | 2nd net assets quarter-end | 3rd net assets quarter-end | Year-end Total | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal Year ended July 31, 2019 | — | 0.00 | — | 0.00 | 0.00 |
| Fiscal Year ended July 31, 2020 | — | — | — | — | — |
| Fiscal Year ended July 31, 2020 (forecast) | — | 0.00 | — | 0.00 | 0.00 |

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

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

(% indicates changes from the previous corresponding period))

| | Net Sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|---------------------------------|-------------|-------|------------------|---|-----------------|---|-------------|---|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Fiscal Year ended July 31, 2020 | 400 | 300.0 | △1,090 | — | △1,134 | — | △1,137 | — | △21.68 |

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

*Notes

(1) Application of specific accounting for preparing the quarterly consolidated financial statements: None

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatements

- a. Changes in accounting policies due to amendment to the accounting standards, etc. : None
- b. Changes in accounting policies other than ① above : None
- c. Changes in accounting estimates : None
- d. Retrospective restatements : None

(3) Number of shares issued (common stock)

a. Number of shares issued at the end of the period (including treasury stock)

| | |
|------------------------|-------------------|
| As of October 31, 2019 | 52,654,800 shares |
| As of July 31, 2019 | 44,282,700 shares |

b. Number of treasury stock at the end of the period

| | |
|------------------------|----------|
| As of October 31, 2019 | — shares |
| As of July 31, 2019 | — shares |

c. Average number of shares during the period

| | |
|-------------------------------------|-------------------|
| Three months ended October 31, 2019 | 51,826,233 shares |
| Three months ended October 31, 2018 | — shares |

(Note) Since the Company did not disclose quarterly financial results for the first quarter of the fiscal period ending July 2019, the average number of shares during the first quarter of the fiscal period ending July 2019 is not stated.

* Quarterly financial results reports are exempted from quarterly review conducted by certified public accountants or an audit corporation.

* Explanation of the appropriate use of business forecasts and other special instructions

The forward-looking statements in this document are based on information currently available to the Company and certain assumptions deemed to be reasonable, and the Company does not assure the achievement of any of these.. Furthermore, actual results may differ significantly due to various factors.

Attached Documents

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1. Qualitative information on quarterly financial results

(1) Explanation of operating results

During the three months ended October 31, 2019 (from August 1, 2019 to October 31, 2019), the Company listed its stock on the Mothers market of the Tokyo Stock Exchange on August 9, 2019. Since its foundation, the Company has been promoting research and development toward the realization of “Regeneration-inducing Medicine” that the company has been working on since its establishment. “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 due to injury or disease.

As for the specific progress, investigator-initiated clinical trials phase2 for HMGB1 peptide, which had started in December 2017, for epidermolysis bullosa, an intractable hereditary skin disease, continued to make good progress at Osaka University Hospital, Keio University Hospital and Toho University Medical Center, and a corporate clinical trial phase2 for cerebral infarction conducted by Shionogi & Co., Ltd, which had started in April 2019, has also progressed as scheduled. In addition to these two indications, the efficacy of HMGB1 peptide against multiple target diseases has been confirmed so far, and the research and development toward realization of Regeneration-inducing Medicine has been steadily progressed.

In the Japanese regenerative medicine industry, in which is the Company operates, the foundation for promoting the industrialization of regenerative medicine has been nurtured by the Act on the Safety of Regenerative Medicine and the Revised Pharmaceutical Affairs Act that came into effect in November 2014, and as multiple regenerative medicine products continue to be approved, social expectations and interest in regenerative medicine technology are increasing.

During the current first quarter, the company has focused on research and development of HMGB1 peptide, which is the most advanced candidate of Regeneration-inducing Medicine, mainly on the clinical or pre-clinical development in the following three indications.

- a. Epidermolysis bullosa (PJ1-01): Doctor-initiated clinical trial (Phase II study) for clinical efficacy evaluation at Osaka University is ongoing, and the enrollment of subjects is progressing smoothly. Prior to this trial, a clinical study conducted at Osaka University last year showed that, when this drug was administered intravenously to healthy volunteers, bone marrow mesenchymal stem cells were mobilized into the peripheral blood circulation of the subject and the number of mesenchymal stem cells were significantly increased. With that result, the mechanism of action of HMGB1 peptide had already been proved as we had expected. Based on the same mechanism of action, we expect that HMGB1 peptide, also in the ongoing Phase II trials, mobilize mesenchymal stem cells in patients' body and can treat the epidermolysis bullosa patients.
- b. Cerebral infarction (PJ1-02): Clinical trial phase II initiated by Shionogi & Co., Ltd., a licensee of HMGB1 peptide, and the enrollment of the subjects so far is making good progress. On November 4, 2019, the administration to the first patient started, and it is expected that the following administrations to the enrolled patients will progress as planned.
- c. Cardiomyopathy (PJ1-03): Though joint research with Osaka University Graduate School of Medicine, Department of Cardiovascular Surgery, our research team demonstrated a remarkable therapeutic effect of HMGB1 peptide on myocardial infarction and several types of cardiomyopathies in animal disease models and proved the mechanism of action of this drug. Those results were reported at international academic conferences such as the American Heart Association (AHA) Scientific Sessions 2018. At The 18th Congress of The Japanese Society for Regenerative Medicine held in March 2019, we reported that we successfully observed GFP (green fluorescent protein)-positive bone marrow-derived cells, accumulating in myocardial infarction area and actively moving around the blood vessels, in myocardial infarction model animals administered HMGB1 peptide by use of in-vivo imaging method with a multiphoton microscope. Our report and presentation were highly evaluated.

In addition to the above, we have continued to actively invest in research and development for the discovery of new Regeneration Inducing Medicine candidates other than HMGB1 peptide. As a result of our multifaceted drug screening approaches, we have succeeded in identifying multiple candidates with remarkable pharmacological activities. During this quarter, the company won a research grant for this drug discovery project from the Japanese Small and Medium Enterprise Agency's FY2017 Strategic Fundamental Technology Advancement Support Project. In addition the company raised funds through initial public offering. With these achievements, we were able to further increase investment in this project and lay the foundation for accelerating research and development.

Under these circumstances, for the three months ended October 31, 2019, operating loss was 216,922 thousand yen, ordinary loss was 271,241 thousand yen, and net loss was 272,208 thousand yen.

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

(2) Explanation of financial position

Asset

Total current assets at the end of the first quarter were 10,161,623 thousand yen, an increase of 7,492,543 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 7,521,337 thousand yen in cash. Total fixed assets were 19,975 thousand yen, an increase of 1,194 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 610 thousand yen in property, plant and equipment and an increase of 656 thousand yen in investments and other assets. As a result, total assets were 10,181,598 thousand yen, an increase of 7,493,737 thousand yen from the end of the previous fiscal year.

Liabilities

Total current liabilities at the end of the first quarter were 56,180 thousand yen, a decrease of 19,454 thousand yen from the end of the previous fiscal year. This is mainly due to a decrease in income taxes payable of 18,614 thousand yen. In addition, long-term liabilities totaled 15,670 thousand yen, declined 652 thousand yen compared with the end of the previous fiscal year. This is mainly due to lease obligations decreased 737 thousand yen. As a result, liabilities totaled 71,850 thousand yen, now as before 20,106 thousand yen decrease compared to the fiscal year-end.

Net assets

Net assets at the end of the first quarter were 10,109,748 thousand yen, an increase of 7,513,844 thousand yen from the end of the previous fiscal year. This is due to the increase in capital and capital surplus of 3,893,026 thousand yen due to funding in the public offering due to the initial listing conducted in August 2019.

(3) Explanation of future forecast information such as business forecasts

There are no changes to the full-year earnings forecasts announced on September 12, 2019. If any change is recognized in the future, it will be disclosed appropriately.

2. Quarterly financial statements and significant notes thereto

(1) Quarterly balance sheet

(Thousands of yen)

| | As of July 31, 2019 | As of October 31, 2019 |
|---|---------------------|------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,496,422 | 10,017,760 |
| Raw materials and stocks | 12,648 | 11,120 |
| Prepaid expenses | 109,651 | 79,053 |
| Other | 50,356 | 53,689 |
| Total current assets | 2,669,080 | 10,161,623 |
| Non-current assets | | |
| Property, plant and equipment | 9,727 | 10,337 |
| Intangible assets | 1,393 | 1,321 |
| Investments and other assets | 7,660 | 8,316 |
| Total non-current asset | 18,780 | 19,975 |
| Total assets | 2,687,861 | 10,181,598 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-other | 34,846 | 33,802 |
| Accrued expenses | 15,955 | 15,715 |
| Income taxes payable | 19,518 | 904 |
| Lease obligations | 2,903 | 2,922 |
| Deposits received | 2,410 | 2,835 |
| Total current liabilities | 75,634 | 56,180 |
| Non-current liabilities | | |
| Lease obligations | 9,714 | 8,976 |
| Asset retirement obligations | 5,881 | 5,907 |
| Deferred tax liabilities | 726 | 786 |
| Total Non-current liabilities | 16,322 | 15,670 |
| Total liabilities | 91,956 | 71,850 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 812,475 | 4,705,501 |
| Capital surplus | 2,802,565 | 6,695,591 |
| Retained earning | △1,019,135 | △1,291,344 |
| Total shareholders' equity | 2,595,904 | 10,109,748 |
| Total net assets | 2,595,904 | 10,109,748 |
| Total liabilities and net assets | 2,687,861 | 10,181,598 |

(2) Quarterly statements of income and comprehensive income

(Thousands of yen)

| | Three months ended October 31, 2019 |
|--|--|
| Net sales | — |
| Operating expenses | |
| Research and development expenses | 163,441 |
| Other selling, general and administrative expenses | 53,480 |
| Total operating expenses | 216,922 |
| Operating loss (△) | △216,922 |
| Non-operating income | |
| Interest and dividend income | 6 |
| Subsidy income | 10,320 |
| Foreign exchange gains | 1 |
| Miscellaneous income | 18 |
| Total non-operating income | 10,346 |
| Non-operating expenses | |
| Interest expenses | 81 |
| Share issuance cost | 55,221 |
| Listing related costs | 9,363 |
| Total non-operating expenses | 64,665 |
| Ordinary loss (△) | △271,241 |
| Loss before income taxes (△) | △271,241 |
| Income taxes - current | 907 |
| Income taxes - deferred | 59 |
| Total income taxes | 966 |
| Net loss (△) | △272,208 |

(3) Notes to the quarterly financial statements

(Notes regarding going concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Capital stock and additional paid-in capital increased by 3,766,500 thousand yen each due to the issuance of new shares upon listing of the Company's common shares on the Tokyo Stock Exchange Mothers, and new shares by third-party allotment related to the sale of the Company's shares through over-allotment. As a result, the capital and capital reserve increased by 126,526 thousand yen respectively, resulting in capital of 4,705,501 thousand yen and capital reserve of 6,695,591 thousand yen.

(Segment information, etc.)

[Segment information]

Since the Company is a single segment of the regeneration inducing medicine business, the business results by segment are omitted.

(Important subsequent events)

[Capital reduction and disposal of surplus]

At the 14th Ordinary General Meeting of Shareholders held on October 24, 2019, the Company received approval of a resolution on the reduction of the amount of capital and capital reserves and the disposal of surplus, and the effect became effective on December 1, 2019.

1). Purpose of reduction of capital amount and disposal of surplus

Resolving the deficit in retained earnings that has arisen at present, enabling a sound financial structure, realizing a return to shareholders such as dividends of surplus in the future and share buybacks, and flexibility in future capital policies. In order to ensure mobility, the amount of capital is reduced and transferred to capital reserves and other capital surplus in accordance with the provisions of Article 447, Paragraph 1 of the Companies Act.

2). Details of the decrease in the amount of capital

(1) Amount of capital to be reduced

Of the amount of capital 4,705,501 thousand yen, it will decrease by 4,675,501 thousand yen to 30,000 thousand yen.

(2) Method of capital reduction

Free capital reduction without reimbursement, without changing the total number of issued shares, reducing only the amount of capital, out of 4,675,501 thousand yen to decrease capital, 1,019,135 thousand yen for other capital surplus and the remaining amount is transferred to capital reserve.

3). Contents of disposal of surplus

Based on the provisions of Article 452 of the Companies Act, all other capital surplus transferred from capital will be transferred to retained earnings carried forward and used to cover deficits, subject to the effect of the reduction in capital.

(1) Increased surplus items and amount

Retained earnings carried forward: 1,019,135 thousand yen

(2) Remaining surplus items and their amounts

Other capital surplus 1,019,135 thousand yen

4). Schedule

| | |
|--|--------------------|
| Date of resolution of the Board of Directors | September 26, 2019 |
| Date of resolution of the Ordinary General Meeting of Shareholders | October 24, 2019 |
| Creditor Opposition Notification Date | October 25, 2019 |
| Creditor Objection Final Date | November 29, 2019 |
| Effective date of capital reduction | December 1, 2019 |