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May 12, 2023

Consolidated Financial Results for the Three Months Ended March 31, 2023 (under IFRS)

Company name: Kubota Pharmaceutical Holdings Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 4596
 URL: <https://www.kubotaholdings.co.jp/en/>
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 Scheduled date of the submission of quarterly securities report: May 12, 2023
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: None

(Yen amounts are rounded to the nearest million, unless otherwise noted.)

1. Consolidated financial results for the three months ended March 31, 2023 (January 1, 2023 to March 31, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
March 31, 2023	5	–	(445)	–	(444)	–	(444)	–
March 31, 2022	–	–	(644)	–	(656)	–	(656)	–

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Three months ended						
March 31, 2023	(444)	–	(444)	–	(8.09)	(8.09)
March 31, 2022	(656)	–	(535)	–	(14.30)	(14.30)

(2) Consolidated financial position

	Total assets	Total shareholders' equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent
	Millions of yen	Millions of yen	Millions of yen	%
As of				
March 31, 2023	4,025	3,582	3,582	89.0
December 31, 2022	4,420	3,950	3,950	89.4

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended December 31, 2022	Yen –	Yen 0.00	Yen –	Yen 0.00	Yen 0.00
Fiscal year ending December 31, 2023:	–				
Fiscal year ending December 31, 2023 (Forecast)		0.00	–	0.00	0.00

(Note) Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2023 (January 1, 2023 to December 31, 2023)

The earnings forecasts for the fiscal year ending December 31, 2023, are not shown because they cannot be reasonably calculated at this time. Please refer to “1. Qualitative Information Regarding Financial Results for the Three Months ended March 31, 2023, (3) Explanation of consolidated earnings forecasts and other forward-looking statements” on page 4 of the attached materials for details concerning the reasons.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: None

Excluded: None

- (2) Changes in accounting policies and changes in accounting estimates

(i) Changes in accounting policies required by IFRS: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

- (3) Number of issued shares (ordinary shares)

- (i) Total number of issued shares at end of the period (including treasury shares)

As of March 31, 2023	55,186,088 shares
As of December 31, 2022	54,622,588 shares

- (ii) Number of treasury shares at end of the period

As of March 31, 2023	71 shares
As of December 31, 2022	70 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

For the three months ended March 31, 2023	54,922,296 shares
For the three months ended March 31, 2022	45,854,290 shares

- * Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.

- * Proper use of earnings forecasts, and other special items

The earnings forecasts and other forward-looking statements contained in these materials are based on information currently available to Kubota Pharmaceutical Holdings Co., Ltd. (the "Company") and on certain assumptions deemed to be reasonable by the Company. Actual business performance and other results may differ substantially due to various factors. Please refer to "1. Qualitative Information Regarding Financial Results for the Three Months ended March 31, 2023, (3) Explanation of consolidated earnings forecasts and other forward-looking statements" on page 4 of the attached materials for matters relating to earnings forecasts.

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1. Qualitative Information Regarding Financial Results for the Three Months ended March 31, 2023

(1) Explanation of operating results

The Kubota Pharmaceutical Group (the “Group”) is an ophthalmic medical solutions company specializing in the field of ophthalmology that conducts research and development of drugs and medical devices globally.

During the three month ended March 31, 2023, the global economy was expected to pick up due to the drop in new cases of COVID-19, but the situation still remains unpredictable; in addition, there is uncertainty about the future due to soaring raw materials and transportation costs as a result of energy problems and other consequences of the prolonged Ukraine conflict, rapid exchange rate fluctuations, and other factors.

In this market environment, the Group proceeded with development of its business and research and development as follows.

Medical devices

Wearable myopia control device (Kubota Glass)

Currently under development by the Group, Kubota Glass technology is the Group’s original active stimulation technology that aims to slow the progression of myopia and treat it by using artificial light to stimulate the retina. In 2020, the Company’s US subsidiary, Kubota Vision Inc. (“Kubota Vision”), conducted a clinical study of 12 subjects with a prototype desktop device that used Kubota Glass technology to verify the impact on the axial length of the eye. The study demonstrated that axial length in the tested eye decreased compared to the control eye. Next, Kubota Vision completed verification that a similar effect was demonstrated with a wearable device using the same technology in 25 subjects aged 18 to 35 with myopia. In another clinical study, the 25 adult patients had their retinas stimulated by light (myopic defocus) for 1.5 hours a day, 3-5 times a week for 4 months with a desktop device using Kubota Glass technology, and showed an average of 101% inhibition of spherical equivalence myopia progression and 38% reduction in the axial length elongation on an annualized basis when compared to the control eye. Usually, the axial length increases or stops growing with age. The shortening of the axial length due to artificial light compared to the control eye is a world first. The Group envisions applications of this technology in smart glasses and smart contact lenses for a world without eyeglasses. In 2021, the Group received medical device registration approval in Taiwan, and received “ISO 13485:2016” certification for the design and development of ophthalmic medical devices. In 2022, the Group completed the registration of medical devices with the U.S. FDA and began sales at some ophthalmic clinics in the U.S. and Japan as a soft launch, and also opened its first direct retail location, Kubota Glass Store, in Tokyo in December 2022. The Group is proceeding with preparation for sales expansion while continuing clinical studies aimed at obtaining more evidence, and other activities. Going forward, the Group will continue with its soft launch in Japan, the U.S., and Taiwan for the purpose of troubleshooting with regard to the processes including manufacturing, sales and distribution, ongoing customer support, and verifying market fit. At the same time, the Group plans to use a sequential approach to strengthen its marketing activities in preparation for commercialization in the wider market and prepare for the development of next-generation models that better meet market needs.

Home-based and remote medical monitoring device

The Group is developing the Patient Based Ophthalmology Suite (PBOS) for a compact optical coherence tomography (OCT) device. It is a compact version of an OCT, which is used to test the condition of the retina in ophthalmology. This home-based ophthalmology device solution anticipates growing demand in the home-based and remote medical care field, including mobile health. It is a testing device that enables patients diagnosed and treated for wet age-related macular degeneration (AMD) and diabetic macular edema (DME) to measure the state of their retina themselves at home. By establishing a system that enables physicians to remotely examine the progression of symptoms such as changes in retinal anatomy and vision via the internet, the Group aims to help individual patients receive optimal ophthalmological treatment to maintain and improve their vision prior to requiring an office visit. From January 2023, the Group has been exploring the possibility of joint development and commercialization with partner companies while verifying the ideal working model through evaluations

regarding the possibility of this model being put to practical use as a screening device for diabetic retinopathy patients and two clinical studies that compared this model with OCT devices on the market at Joslin Diabetes Center, which is affiliated with Harvard Medical School.

Small molecule compounds

With regard to emixustat hydrochloride (“emixustat”), the Group completed the enrollment of the first subject of the phase 3 clinical study for Stargardt disease in November 2018, finally completing the enrollment of 194 subjects, and concluded this phase 3 clinical study. For the results of the aggregation and analysis of the database for the clinical study, the primary endpoint and secondary endpoints were not achieved, and there were no significant differences between the treatment groups. The rate of macular atrophy progression, which was the primary endpoint, was 1.280 mm²/year for the group receiving emixustat and 1.309 mm²/year for the group receiving the placebo (p=0.8091). However, tolerability of emixustat was good, and the safety profile was consistent with that observed in prior research.

As a result of further subsequent analysis, when comparing the subject group with a smaller atrophic lesion area at the baseline time against the group that received the placebo, it was demonstrated that the progression of the atrophic lesion was significantly slowed in the group receiving emixustat, and a subgroup analysis was conducted to verify this. A multi-factor analysis was performed on the subgroup of subjects with smaller lesions at baseline, controlling for the baseline factors identified in univariate and multi-factor analyses to affect lesion progression in this subgroup. The result of this analysis found that the progression rate of macular atrophy in the group receiving emixustat was slowed by 40.8% at Month 24 compared with the placebo group (p=0.0206, emixustat receiving group n=34, placebo group n=21). Given the above result, the Group plans to continue its activities, such as searching for co-development partners, while reconsidering its future plans for emixustat.

For the three months ended March 31, 2023, revenue was ¥5 million, and cost of sales was ¥2 million. Research and development expenses, selling, general and administrative expenses are as follows:

Research and development expenses

Research and development expenses for the three months ended March 31, 2023, was ¥277 million, a decrease of ¥222 million, or 44.5%, year on year. This was mainly due to decreases in research and development expenses for emixustat and development expenses for the wearable myopia control device.

(Unit: Thousands of yen or %)

	Three months ended March 31, 2022	Three months ended March 31, 2023	Increase (Decrease)	Change (%)
Research and development expenses	498,661	276,720	(221,940)	(44.5)

Selling, general and administrative expenses

Selling, general and administrative expenses for the three months ended March 31, 2023, was ¥172 million, an increase of ¥26 million, or 17.8%, year on year. This was mainly due to increases in patent-related expenses year on year.

(Unit: Thousands of yen or %)

	Three months ended March 31, 2022	Three months ended March 31, 2023	Increase (Decrease)	Change (%)
Selling, general and administrative expenses	145,817	171,782	25,965	17.8

(2) Explanation of financial position

Current assets

Current assets as of the end of the first quarter of the current fiscal year was ¥3,816 million, a decrease of ¥366 million from the end of the previous fiscal year. This was mainly due to a decrease in cash and cash equivalents.

Non-current assets

Non-current assets as of the end of the first quarter of the current fiscal year was ¥210 million, a decrease of ¥28 million from the end of the previous fiscal year. This was mainly due to depreciation of property, plant and equipment and decreases in other non-current assets.

Current liabilities

Current liabilities as of the end of the first quarter of the current fiscal year was ¥342 million, a decrease of ¥19 million from the end of the previous fiscal year. This was mainly due to decreases in accrued compensation.

Non-current liabilities

Non-current liabilities as of the end of the first quarter of the current fiscal year was ¥101 million, a decrease of ¥8 million from the end of the previous fiscal year. This was due to a decrease in lease liabilities.

Shareholders' equity

Shareholders' equity as of the end of the first quarter of the current fiscal year was ¥3,582 million, a decrease of ¥367 million from the end of the previous fiscal year. This was mainly due to an increase in loss brought forward (accumulated deficit) due to the recording of net loss.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

Revenue from sales of Kubota Glass, which utilizes Kubota Glass technology, the Group's original active stimulation technology, accounts for almost all of the current revenue of the Company. With regard to expenditures, while reflecting customer opinions, etc. in the current version of the product and continuing efforts to reduce manufacturing expenses, the Group has established the priority for additional development. As a result, development expenses may fluctuate significantly. In addition, with regard to revenue, as Kubota Glass is an extremely novel product, it is difficult to determine the objective demand at this time.

Based on the above, the Group has decided to postpone the disclosure of the earnings forecasts for the full year because the consolidated earnings forecasts for the fiscal year ending December 31, 2023, are still difficult to objectively calculate at this time. They will be promptly disclosed as soon as it becomes possible to make a reasonable calculation in light of future business conditions.

2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Condensed quarterly consolidated statements of financial position

	As of December 31, 2022	(Thousands of yen) As of March 31, 2023
Assets		
Current assets		
Cash and cash equivalents	4,048,969	3,715,330
Trade receivables	3,436	1,745
Inventories	7,433	7,480
Other current assets	121,997	91,300
Total current assets	4,181,835	3,815,855
Non-current assets		
Property, plant and equipment	203,849	192,652
Other non-current assets	34,071	16,891
Total non-current assets	237,920	209,543
Total assets	4,419,755	4,025,398
Liabilities and equity		
Liabilities		
Current liabilities		
Trade payables	42,928	49,438
Accrued liabilities	194,447	205,489
Accrued compensation	76,247	36,049
Lease liabilities	39,175	36,236
Other current liabilities	8,030	14,803
Total current liabilities	360,827	342,015
Non-current liabilities		
Lease liabilities	109,393	100,984
Total non-current liabilities	109,393	100,984
Total liabilities	470,220	442,999
Shareholders' equity		
Share capital	2,066,706	2,098,006
Capital surplus	27,526,853	27,572,805
Retained earnings (loss)	(24,180,654)	(24,624,988)
Other components of equity	(1,463,370)	(1,463,424)
Total equity attributable to owners of parent	3,949,535	3,582,399
Total shareholders' equity	3,949,535	3,582,399
Total liabilities and shareholders' equity	4,419,755	4,025,398

(2) Condensed quarterly consolidated statements of profit or loss and condensed quarterly consolidated statements of comprehensive income

Condensed quarterly consolidated statements of profit or loss

Three months ended March 31, 2022 and 2023

	Three months ended March 31, 2022	(Thousands of yen) Three months ended March 31, 2023
Revenue	-	5,179
Business expenses		
Cost of sales	-	2,037
Research and development expenses	498,661	276,720
Selling, general and administrative expenses	145,817	171,782
Total business expenses	644,478	450,539
Operating loss	(644,478)	(445,360)
Other income and expenses		
Finance income	1,004	4,126
Finance costs	(3,162)	(2,370)
Other income (expenses)	(8,885)	(730)
Total other income and expenses	(11,043)	1,026
Loss before tax	(655,521)	(444,334)
Net loss	(655,521)	(444,334)
Loss attributable to Owners of parent	(655,521)	(444,334)
Net loss per share		
Basic loss per share (Yen)	(14.30)	(8.09)
Diluted loss per share (Yen)	(14.30)	(8.09)

Condensed quarterly consolidated statements of comprehensive income

Three months ended March 31, 2022 and 2023

	Three months ended March 31, 2022	(Thousands of yen) Three months ended March 31, 2023
Net loss	(655,521)	(444,334)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	120,222	(54)
Total other comprehensive income	120,222	(54)
Comprehensive income	(535,299)	(444,388)
Comprehensive income attributable to Owners of parent	(535,299)	(444,388)

(3) Condensed quarterly consolidated statements of changes in equity

Three months ended March 31, 2022

(Thousands of yen)

	Share capital	Capital surplus	Retained earnings (loss)	Other components of equity	Total equity attributable to owners of parent	Total
Balance as of January 1, 2022	1,308,902	26,755,419	(22,164,748)	(1,746,652)	4,152,921	4,152,921
Net loss			(655,521)		(655,521)	(655,521)
Exchange differences on translation of foreign operations				120,222	120,222	120,222
Comprehensive income	–	–	(655,521)	120,222	(535,299)	(535,299)
Share-based compensation expense		15,190			15,190	15,190
Total transactions with owners	–	15,190	–	–	15,190	15,190
Balance as of March 31, 2022	1,308,902	26,770,609	(22,820,269)	(1,626,430)	3,632,812	3,632,812

Three months ended March 31, 2023

(Thousands of yen)

	Share capital	Capital surplus	Retained earnings (loss)	Other components of equity	Total equity attributable to owners of parent	Total
Balance as of January 1, 2023	2,066,706	27,526,853	(24,180,654)	(1,463,370)	3,949,535	3,949,535
Net loss			(444,334)		(444,334)	(444,334)
Exchange differences on translation of foreign operations				(54)	(54)	(54)
Comprehensive income	–	–	(444,334)	(54)	(444,388)	(444,388)
Share-based compensation expense		15,205			15,205	15,205
Issuance of new shares	31,300	31,300			62,600	62,600
Issuance cost of new shares		(553)			(553)	(553)
Total transactions with owners	31,300	45,952	–	–	77,252	77,252
Balance as of March 31, 2023	2,098,006	27,572,805	(24,624,988)	(1,463,424)	3,582,399	3,582,399

(4) Condensed quarterly consolidated statements of cash flows

	Three months ended March 31, 2022	(Thousands of yen) Three months ended March 31, 2023
Cash flows from operating activities		
Net loss	(655,521)	(444,334)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	13,520	18,873
Share-based compensation expense	15,190	15,205
Amortization of premium or discount on securities	(537)	-
Finance income	(1,004)	(4,126)
Finance costs	3,162	2,370
Change in operating assets and liabilities		
Trade receivables	-	1,691
Other current assets	97,321	30,562
Other current liabilities	-	6,685
Trade payables	(31,842)	6,205
Accrued liabilities	27,644	9,769
Accrued compensation	(33,151)	(40,442)
Deferred rent, lease incentives, and others	(11,849)	-
Other assets	188	17,294
Subtotal	(576,879)	(380,248)
Interest paid	(3,108)	(2,349)
Net cash provided by (used in) operating activities	(579,987)	(382,597)
Cash flows from investing activities		
Interest received	980	4,800
Purchase of other financial assets	(581,342)	-
Proceeds from redemption upon maturity of other financial assets	314,593	-
Purchase of property, plant and equipment	(248)	(6,243)
Proceeds from collection of lease receivables	24,954	-
Net cash provided by (used in) investing activities	(241,063)	(1,443)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	-	62,601
Payment of lease liabilities	(32,994)	(12,207)
Net cash provided by (used in) financing activities	(32,994)	50,394
Effect of exchange rate changes on cash and cash equivalents	97,914	7
Net increase (decrease) in cash and cash equivalents	(756,130)	(333,639)
Cash and cash equivalents at beginning of period	3,977,312	4,048,969
Cash and cash equivalents at end of period	3,221,182	3,715,330

(5) Notes to condensed quarterly consolidated financial statements

Notes on going concern assumption

Not applicable.

Significant subsequent events

Grant of share options

The Company resolved, at its 8th Ordinary General Meeting of Shareholders (for the fiscal year 2022) held on April 21, 2023, to delegate to the Board of Directors of the Company the authority to determine the offering terms for share acquisition rights issued as share options without contribution, pursuant to the provisions of Article 236, Article 238 and Article 239 of the Companies Act.

The details are as follows:

- (1) Persons eligible for allotment of share acquisition rights
Directors (including outside directors), employees and consultants of the Company, and directors (including outside directors), employees and consultants of subsidiaries of the Company
- (2) Class and number of shares underlying share acquisition rights
The upper limit shall be 1,200,000 ordinary shares of the Company.
However, in the event that the Company implements a share split of ordinary shares of the Company (including the allotment of ordinary shares of the Company without contribution; the same shall apply to the description of the share split hereinafter) or a share consolidation of the shares on or after the date when the Board of Directors of the Company resolves to offer share acquisition rights (the “Resolution Date”), the number of granted shares shall be adjusted using the following formula and any fraction less than one share arising from such adjustment shall be discarded.
$$\text{Number of granted shares after adjustment} = \text{Number of granted shares before adjustment} \times \text{Ratio of share split or share consolidation}$$
- (3) Total number of share acquisition rights to be issued
The upper limit shall be 12,000 units.
- (4) Issue price of share acquisition rights
No cash payment in exchange for the share acquisition rights shall be required.
- (5) Value of property to be contributed upon exercise of share acquisition rights
The amount of property to be contributed upon exercise of each of the share acquisition rights shall be the amount to be paid per share that may be issued upon exercise of the share acquisition rights (the “Exercise Price”) multiplied by the number of granted shares.
The Exercise Price shall be either the average value (rounding up any fraction less than ¥1) of the closing price of ordinary shares of the Company in regular trading at the Tokyo Stock Exchange (the “Closing Price”) for each day (excluding days on which no trades are executed) of the month preceding the month that includes the date of allotment of share acquisition rights (the “Allotment Date”) or the Closing Price on the Allotment Date (if there is no Closing Price, the Closing Price of the most recent date is used), whichever is higher.
- (6) Exercise period of share acquisition rights
This shall be the period from the Allotment Date to the date on which 10 years elapse since the Resolution Date of granting the share acquisition rights.
- (7) Exercise conditions of share acquisition rights
The exercise conditions of share acquisition rights shall be as set forth in (9), below, of the Share Acquisition Rights Allotment Agreement.
- (8) Matters concerning the amount of increase in share capital and legal capital surplus resulting from issuance of shares upon exercise of share acquisition rights
 - (i) The amount of increase in share capital resulting from the issuance of shares upon exercise of the share acquisition rights shall be one-half of the maximum amount of increase in share capital as calculated pursuant to provisions of Article 17 of the Regulation on Corporate Accounting. Any fraction less than ¥1 arising from such calculation shall be rounded up to the nearest yen.
 - (ii) The amount of increase in legal capital surplus resulting from the issuance of shares upon exercise of share acquisition rights shall be the maximum amount of increase in share capital

as provided in (i) above less the amount of increase in share capital as determined in (i) above.

(9) Other matters

The allotment of share acquisition rights shall be based on and executed in accordance with a Share Acquisition Rights Allotment Agreement that sets forth the conditions that the Board of Directors deems necessary to achieve the issuance of the above-mentioned share acquisition rights, and such agreement shall be entered into by the Company and persons eligible for allotment of share acquisition rights.