

Kidswell Bio (TYO: 4584)

Despite the risk of a delay in the full-year sales forecast, expectations are high for measures to enhance corporate value.

◇ Summary of 3Q FY2023 financial results:

Kidswell Bio (hereinafter referred to as "the company") reported 3Q FY2023 sales of 1.57 billion yen (-9% YoY), an operating loss of 670 million yen (vs. an operating loss of 140 million yen in the same period of FY2022), and net loss of 750 million yen (vs. a net loss of 200 million yen in the same period of FY2022). Although actual demand for biosimilars ("BS"), which were launched in the market, appeared to be strong, one-time revenues in the same period of last fiscal year and the timing of delivery delays between this fiscal year and the previous fiscal year contributed to the decline in sales this quarter. In addition, higher costs of sales due to inflation and foreign exchange effects in overseas markets, a change in the product mix as a percentage of sales, and upfront SG&A expenses, including R&D spending, increased losses.

◇ FY2023 forecast:

Although the company left its full-year forecasts unchanged, its earnings release indicated a risk that the delivery of BSs planned for the current fiscal year may be delayed to the next fiscal year due to adjustments in the manufacturing schedule by the contract manufacturer. In this case, the full-year sales forecast may not be achieved, and losses could increase. However, the company explains that this is not a decrease in actual demand but merely a carry-over of some deliveries to the next fiscal year. Hence, the impact on the business value is considered minimum.

◇ Corporate value enhancement measures:

The company announced its policy to select and concentrate its businesses, optimise financing methods, and visualise the value of its businesses. It will concentrate its management resources on the biosimilar and cell therapy businesses. The new biologics business will promote business development through partnerships and collaborations with external parties.

Furthermore, the company plans to spin off its cell therapy business into a wholly owned subsidiary, S-Quatre Corporation, on April 1, 2024.

As a result, the biosimilar business will become the company's main business on a non-consolidated basis. The business has already launched four products and is now in the revenue collection phase, so it is expected that the company will be able to smoothly finance its manufacturing working capital through indirect financing and other sources and gain momentum in initiating new BS projects to sustain growth in the future.

S-Quatre Corporation, which will be spun off, is expected to fully pursue the development of SHED (Stem cells from Human Exfoliated Deciduous teeth), an advanced modality. It will plan to apply for corporate clinical trials by the end of FY2025. Due to high-risk, high-return nature of cell therapy development, the new company intends to finance its activities through equity finance from business corporations and venture capitals. The new company also plans to utilize various research and development grants as additional capital sources.

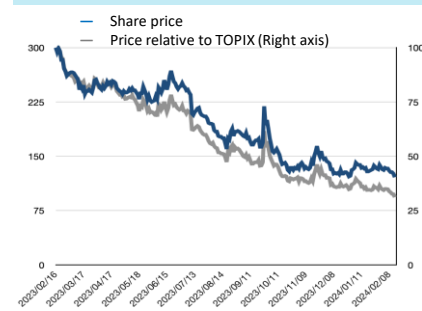
3Q results update

Healthcare

As of February 27, 2024

Share price(2/26)	¥131
52 weeks high/low	¥276/119
Avg Vol (3 month)	362 thou shrs
Market Cap	¥5.0 bn
Enterprise Value	¥5.1 bn
PER (24/3 CE)	- X
PBR (23/3 act)	4.04 X
Dividend Yield (24/3 CE)	- %
ROE (TTM)	-128.2 %
Operating margin (TTM)	-41.4 %
Beta (5Y Monthly)	N/A
Shares Outstanding	38.427 mn shrs
Listed market	TSE Growth

Share price performance



% of	1 mo.	3 mo.	12 mo.
Share prices	-9.7%	-19.3%	-59.7%
Relative share price	-12.8%	-25.6%	-68.9%

Points of interest

Drug discovery venture originated from Hokkaido University, with a leading track record in BS. 4th BS product was launched. Cell therapy (regenerative medicine) based on SHED is now in the clinical stage. Plans are underway for second-generation SHED with a view to international expansion.

This report (Company note) has been prepared on behalf of Kidswell Bio. For more information, please refer to the Disclaimer on the last page.

JPY, mn, %	Net sales	YoY %	Oper. profit	YoY %	Ord. profit	YoY %	Profit ATOP	YoY %	EPS (¥)
2020/3	1,077	-	-1,161	-	-1,187	-	-7,316	-	-264.65
2021/3	996	-7.5	-969	-	-991	-	-1,001	-	-34.79
2022/3	1,569	62.3	-651	-	-968	-	-535	-	-17.86
2023/3	2,776	76.9	-550	-	-624	-	-657	-	-20.77
2024/3 (CE)	3,500	26.1	-1,500	-	-1,550	-	-1,550	-	-43.87
2023/3 3Q	1,726	-	-135	-	-194	-	-194	-	-6.18
2024/3 3Q	1,566	-9.3	-667	-	-712	-	-747	-	-21.80

* FY2019 - FY2021 on a consolidated basis; FY2022 onwards on a non-consolidated basis.

◇ Focus going forward:

The current investment focus on the company is whether or not it will cut back on its sales forecast, alter profit estimates for the current fiscal year, and how its shareholders' equity and the exercise of its stock acquisition rights will be. If some sales are postponed due to the contract manufacturers' production schedule adjustment, this will become a positive factor in next year's performance, so this point needs to be confirmed.

From a medium-term perspective, the most significant investment interest lies in the growth of the two main businesses and the progress in visualising the value of the businesses after the spin-off in April 2024.

In the biosimilar business (Kidswell Bio on a non-consolidated basis from the next fiscal year), the critical point is whether the company can deliver a solid profit by increasing sales of the four products already on the market while executing appropriate cost measures and whether the company gains momentum in developing its new product projects. The company has already selected development candidates that are expected to be highly profitable and is in discussions with several potential co-development partners.

In the cell therapy business (S-Quatre Corporation in the next fiscal year and thereafter), the key points will be the development of the production system, etc., in preparation for the application for clinical trials for the allogenic SHED in FY2025, and the lineup of business companies and venture capitalists who will become partners, their valuation of the business, and the amount of capital they will raise.

While S-Quatre Corporation's equity financing to a third party would dilute its shareholder interest from the perspective of its parent company, Kidswell Bio, it would also mean sharing the upfront costs incurred by S-Quatre Corporation with other shareholders of S-Quatre Corporation. In addition, the company will have access to other shareholders' views on the value of S-Quatre Corporation's business. This is expected to be rather positive for Kidswell Bio shareholders.

It is also essential to pay attention to how the company's existing major shareholders evaluate the restructuring at this time.

◇ Stock price trend:

Since the beginning of the year, the shares have been trading in a boxed range of 120-140 yen.

① Concentration of management resource



Business progress by the end of 2023		
New Biologics Business	Biosimilars Business	Cell Therapy Business
<ul style="list-style-type: none"> Patent applications have been completed for some projects based on research results. 	<ul style="list-style-type: none"> Launched four BS products through collaborative development with partner companies. Started discussions with potential partner companies regarding the 5th BS product, etc. 	<ul style="list-style-type: none"> Started clinical development with the first generation SHED. Research is progressing on the second-generation SHED, etc.

Selection and Concentration

- For accelerating efficiently utilization of management resources and improvement in business value, management resources (human resources, funds) will be concentratedly invested in the following two businesses instead of three businesses (biosimilars, new biologics, and cell therapy) that were previously dispersed.
 - Biosimilars business as a stable revenue base business
 - Cell therapy business where progress in R&D activities is more noticeable as a growth business
- New biologics business will focus on business development activities for collaboration and alliances with external companies.

② Optimization of financing methods ③ Visualization of business value



- By making the biosimilars business and the cell therapy business separate companies, KWB expects to
 - carry out financing measures according to the characteristics of each business,
 - improve the "visualization of business value" by disclosing the performance of each business.
- The new company plans to carry out its own flexible financing, including partner companies and venture capital (Diversification of Financing Methods).

	KWB	S-Quatre Corporation
Core business	Biosimilars business	Cell therapy business (SEHD R&D)
Business characteristics	Middle-risk and middle-return	High-risk and high-return
Position of business (Business stage) Strategies	Revenue base business (Return stage) Expanding profitability from sales of launched BS products and new product development	Growth business (Upfront investment stage) Pioneer benefits from upfront investment in advanced modalities
Financing methods (usage of financing)	Debt financing (for manufacturing)	Equity financing (for SHED R&D activities)
Major IR events	<ul style="list-style-type: none"> Expand profits of launched four products Conclude contracts with partner companies on new BS products 	<ul style="list-style-type: none"> Progress in clinical development of the first generation SHED Conclude contract with partner companies Progress in clinical development of the second generation SHED

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(Excerpts from the company's supplementary materials for the 3Q of FY2023)

Financial data

FY (¥mn)	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3	2023/3*	2024/3 (CE)	2023/3 3Q total	2024/3 3Q total
[Statements of income]											
Net sales	1,160	1,089	1,059	1,021	1,077	996	1,569	2,776	3,500	1,726	1,566
Cost of sales	500	397	422	412	653	119	550	1,250		654	703
Gross profit	660	692	637	609	424	876	1,018	1,525		1,072	862
SG&A expenses	1,480	1,876	1,550	1,414	1,585	1,846	1,937	2,076		1,208	1,529
R&D expenses	1,075	1,433	1,107	945	898	963	1,150	1,216		579	807
Operating loss	-820	-1,184	-913	-806	-1,161	-969	-919	-550	-1,500	-135	-667
Non-operating income	50	35	11	3	1	2	2	3		2	2
Non-operating expenses	15	27	0	14	27	24	36	77		61	48
Ordinary loss	-785	-1,176	-903	-816	-1,187	-991	-952	-624	-1,550	-194	-712
Extraordinary income			0	7	5		418	-		-	3
Extraordinary expenses		45		45	6,132	8		31		-	35
Loss before income taxes	-785	-1,222	-902	-854	-7,314	-999	-533	-656		-194	-744
Total income taxes	1	2	1	1	2	1	1	1		1	2
Net loss	-787	-1,224	-904	-856	-7,316	-1,001	-535	-657	-1,550	-194	-747
[Balance Sheets]											
Current assets	1,520	3,421	2,692	2,821	3,322	3,346	3,325	3,697		3,948	5,036
Cash and cash equivalents	817	2,379	1,891	2,009	2,032	1,461	1,187	1,067		1,499	2,186
Non-current assets	173	284	332	329	269	587	177	197		224	161
Tangible assets	2	1	1	1	1	3	1	1		1	1
Investments and other assets	171	282	330	328	267	581	172	193		220	158
Total assets	1,694	3,706	3,025	3,151	3,592	3,933	3,503	3,894		4,173	5,198
Current liabilities	1,279	189	404	400	880	1,114	1,128	1,055		780	1,988
Short-term borrowings	810				25		75	375		400	550
Non-current liabilities	11	16	16	19	1,223	1,209	656	1,605		1,704	1,766
Total liabilities	1,290	205	421	420	2,104	2,323	1,784	2,661		2,485	3,754
Total net assets	403	3,500	2,604	2,731	1,487	1,610	1,718	1,233		1,688	1,443
Total shareholders' equity	383	3,472	2,568	2,695	1,451	1,291	1,533	1,037		1,490	1,276
Capital stock	2,037	4,194	100	591	611	1,032	1,421	1,509		1,504	2,002
Legal capital reserve	1,940	4,097	3,372	3,864	9,917	10,337	10,726	10,815		10,810	11,308
Retained earnings	-3,594	-4,818	-904	-1,760	-9,077	-10,078	-10,613	-11,287		-10,824	-12,034
Evaluation/conversion difference	-0	3	2	1	-21	202					
Subscription rights to shares	21	23	32	34	57	116	184	195		197	167
Total liabilities and net assets	1,694	3,706	3,025	3,151	3,592	3,933	3,503	3,894		4,173	5,198
[Statements of cash flows]											
Cash flow from operating activities	-607	-1,759	-438	-860	-1,325	-1,267	-1,169	-1,421			
Loss before income taxes	-785	-1,222	-902	-854	-7,314	-999	-533	-656			
Cash flow from investing activities	-121	-149	-50	-0	-137	-22	526	-28			
Purchase of investment securities	-116	-149			-100			-50			
Cash flow from financing activities	946	3,471		978	1,221	718	369	1,356			
Proceeds from issuance of common shares	486	3,932		973	40	138	369	34			
Net increase in cash and cash equiv.	217	1,562	-488	118	-240	-571	-273	-93			
Cash and cash equiv. at beginning of period	599	817	2,379	1,891	2,009	2,032	1,461	1,160			
Cash and cash equiv. at end of period	817	2,379	1,891	2,009	2,032	1,461	1,187	1,067			
FCF	-729	-1,909	-488	-860	-1,462	-1,289	-643	-1,450			

Note: Consolidated basis until FY2021; non-consolidated basis from FY2022.

Source: Omega Investment from company materials



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