

# H1 FY2020 Financial Results & Strategy Update

Six-month period ended June 30, 2020

# Disclaimer

The material that follows is a presentation of general background information about Sosei Group Corporation and its subsidiaries (collectively, the "Company") as of the date of this presentation. This material has been prepared solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities and should not be treated as giving investment advice to recipients. It is not targeted to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide the basis for any third-party evaluation of any securities or any offering of them and should not be considered as a recommendation that any recipient should subscribe for or purchase any securities.

The information contained herein is in summary form and does not purport to be complete. Certain information has been obtained from public sources. No representation or warranty, either express or implied, by the Company is made as to the accuracy, fairness, or completeness of the information presented herein and no reliance should be placed on the accuracy, fairness, or completeness of such information. The Company takes no responsibility or liability to update the contents of this presentation in the light of new information and/or future events. In addition, the Company may alter, modify or otherwise change in any manner the contents of this presentation, in its own discretion without the obligation to notify any person of such revision or changes.

This presentation contains "forward-looking statements," as that term is defined in Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. The words "believe", "expect", "anticipate", "intend", "plan", "seeks", "estimates", "will" and "may" and similar expressions identify forward looking statements. All statements other than statements of historical facts included in this presentation, including, without limitation, those regarding our financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to our products), are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. The important factors that could cause our actual results, performance or achievements to differ materially from those in the forward looking statements include, among others, risks associated with product discovery and development, uncertainties related to the outcome of clinical trials, slower than expected rates of patient recruitment, unforeseen safety issues resulting from the administration of our products in patients, uncertainties related to product manufacturing, the lack of market acceptance of our products, our inability to manage growth, the competitive environment in relation to our business area and markets, our inability to attract and retain suitably qualified personnel, the unenforceability or lack of protection of our patents and proprietary rights, our relationships with affiliated entities, changes and developments in technology which may render our products obsolete, and other factors. These factors include, without limitation, those discussed in our public reports filed with the Tokyo Stock Exchange and the Financial Services Agency of Japan. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonably based on information currently available to the Company's management, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. The forward-looking statements in this document speak only as at the date of this presentation and the company does not assume any obligations to update or revise any of these forward statements, even if new information becomes available in the future.

This presentation does not constitute an offer, or invitation, or solicitation of an offer, to subscribe for or purchase any securities. Neither this presentation nor anything contained herein shall form the basis of any contract or commitment whatsoever. Recipients of this presentation are not to construe the contents of this summary as legal, tax or investment advice and recipients should consult their own advisors in this regard.

This presentation and its contents are proprietary confidential information and may not be reproduced, published or otherwise disseminated in whole or in part without the Company's prior written consent. These materials are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This presentation contains non-GAAP financial measures. The non-GAAP financial measures contained in this presentation are not measures of financial performance calculated in accordance with IFRS and should not be considered as replacements or alternatives profit, or operating profit, as an indicator of operating performance or as replacements or alternatives to cash flow provided by operating activities or as a measure of liquidity (in each case, as determined in accordance with IFRS). Non-GAAP financial measures should be viewed in addition to, and not as a substitute for, analysis of the Company's results reported in accordance with IFRS.

References to "FY" in this presentation for periods prior to January 1, 2018 are to the 12-month periods commencing in each case on April 1 of the year indicated and ending on March 31 of the following year, and the nine-month period from April 1, 2017 to December 31, 2017. From January 1, 2018 the Company changed its fiscal year to the 12-month period commencing in each case on January 1. References to "FY" in this presentation should be construed accordingly.

© Sosei Group Corporation. Sosei Heptares is the corporate brand and trademark of Sosei Group Corporation. Sosei, Heptares, the logo and StaR® are trademarks of Sosei Group companies.

# Agenda

1

Overview of Financial Results

2

Operational Highlights

3

Strategy Update

4

Appendix

Note: This material was created to explain the details of our company and is not intended to be used for investment decisions. In addition, the contents reflect the views of our company at the time of the creation of the material, and the accuracy of the information is not guaranteed. Investments should be made based on the independent views of investors



1

# Overview of Financial Results

Chris Cargill, CFO

# H1 2020 Financial Results Commentary

Six-month period ended June 30, 2020

1

**COVID-19 pandemic forced us to adapt quickly to ensure business continuity.** R&D facility operational throughout entire UK lockdown to support our partners, with high levels of scientific productivity maintained. **New discovery collaboration executed with AbbVie to drive growth.**

2

**Revenue of JPY2,516m (USD23.2m) declined 49%** primarily due to lack of upfront fees and milestone income. Prior corresponding period benefitted from a USD15m milestone from the AZD4635 Ph II start. **Royalty Revenue from Novartis increased. Other Revenues stable. New Partnerships are expected to be announced in H2 2020.**

3

**Cash Loss of JPY181m (USD1.7m)** was small and **Net Loss of JPY2,117m (USD19.6m)** was due to lower revenues and a “paper” tax charge of JPY847m (USD7.8m) that is a result of IFRS accounting methodology. **Year To Date tax charge expected to reverse and generate a tax credit at year end.**

Note: <sup>1</sup>USD:JPY FX rates used – 108.253 (H1 2020) and 110.064 (H1 2019)

# H1 2020 Financial Results Commentary (continued)

Six-month period ended 30 June 2020

4

**Stable cash balance maintained despite accounting loss. June cash balance totalled JPY15,362m (USD142.6m).** Unique and diversified business model focused around partnered and in-house drug discovery and early development resulted in a sustainable profile.

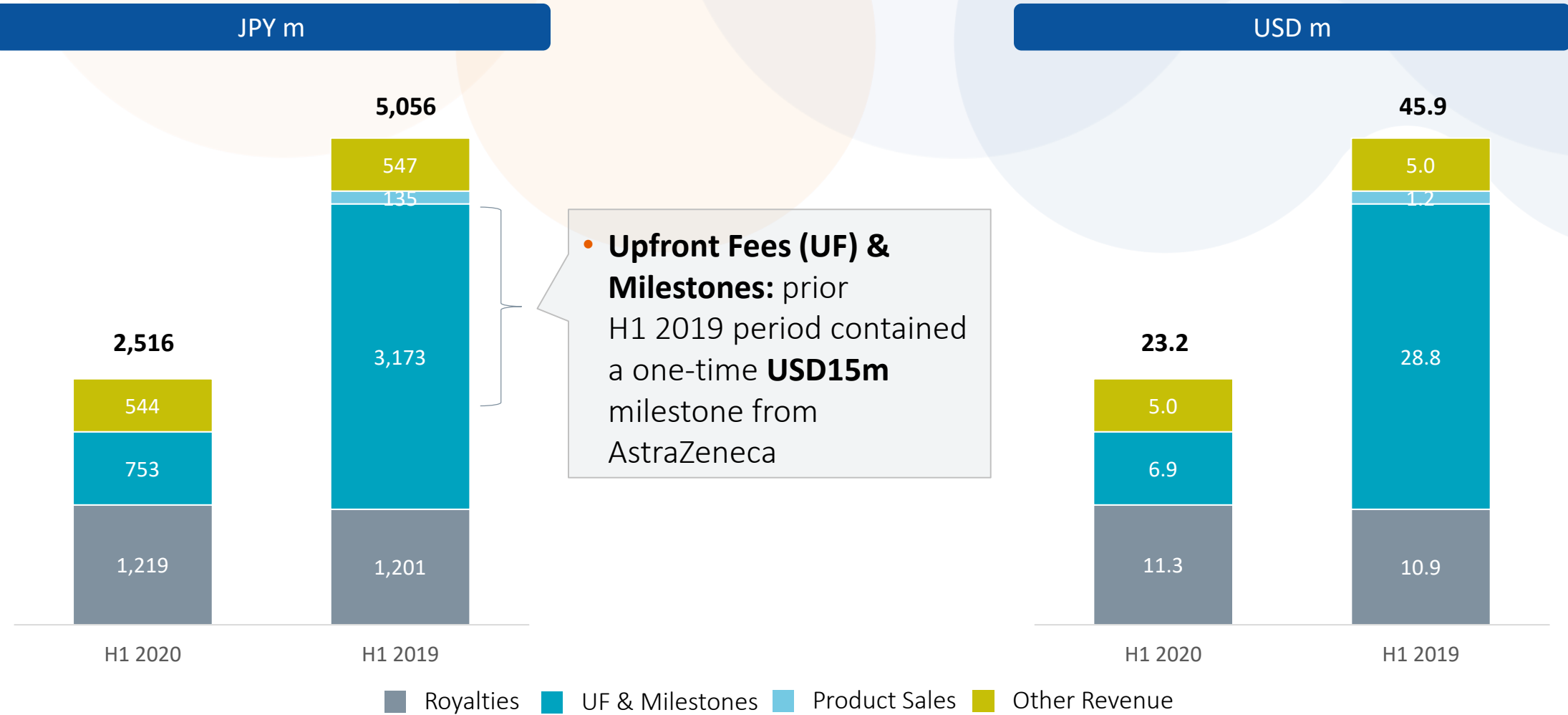
5

**Launched successful international capital raising** (issuance of new shares and convertible bonds), Japan's largest biotech financing during COVID-19, to support **aggressive strategic growth agenda**. Net proceeds of JPY20.9b (USD194m) received after the period close will enable us to **accelerate long-term revenue growth** via acquisition and **expand and future-proof drug discovery**.

Despite uncertain times, we are well financed and positioned to execute on our growth plan

Note: <sup>1</sup> USD:JPY FX rates used – 108.253 (H1 2020) and 110.064 (H1 2019)

# H1 2020 revenue decline driven by low upfront fee and milestones, with the prior period benefitting from a USD15m milestone



# Costs carefully managed – ‘technical’ Q2 tax charge accentuates net loss

## Consolidated Income Statement

	JPY m		USD m	
	6m ended 30 Jun 2020 <sup>12</sup>	6m ended 30 Jun 2019 <sup>12</sup>	6m ended 30 Jun 2020 <sup>12</sup>	6m ended 30 Jun 2019 <sup>12</sup>
Revenue	2,516	5,056	23.2	45.9
Cash Cost of Sales	(304)	(375)	(2.8)	(3.4)
Cash R&D	(1,500)	(1,862)	(13.9)	(16.9)
Cash G&A	(925)	(1,239)	(8.5)	(11.3)
Other Cash Income	32	16	0.3	0.2
<b>Cash Loss</b>	<b>(181)</b>	<b>1,596</b>	<b>(1.7)</b>	<b>14.5</b>
Non-Cash Costs	(955)	(865)	(8.8)	(7.9)
Financing Costs	46	(385)	0.4	(3.5)
Equity Accounted Investments	(180)	(54)	(1.7)	(0.5)
Tax Expense	(847)	103	(7.8)	1.0
<b>Net Loss</b>	<b>(2,117)</b>	<b>395</b>	<b>(19.6)</b>	<b>3.6</b>

### Commentary

- **Cash R&D:** declined due to successful recovery of excess charges from former supplier, plus general COVID-19 related delays to pipeline programs resulted in deferral of planned expenditure
- **Cash G&A:** reduction mainly due to UK National Insurance contribution credit related to share price movement
- **Tax charge:** calculated in accordance with IFRS Effective Tax Rate methodology (IAS12/IAS34) – counterintuitive result given P&L loss, expected to reverse and generate a tax credit at year end

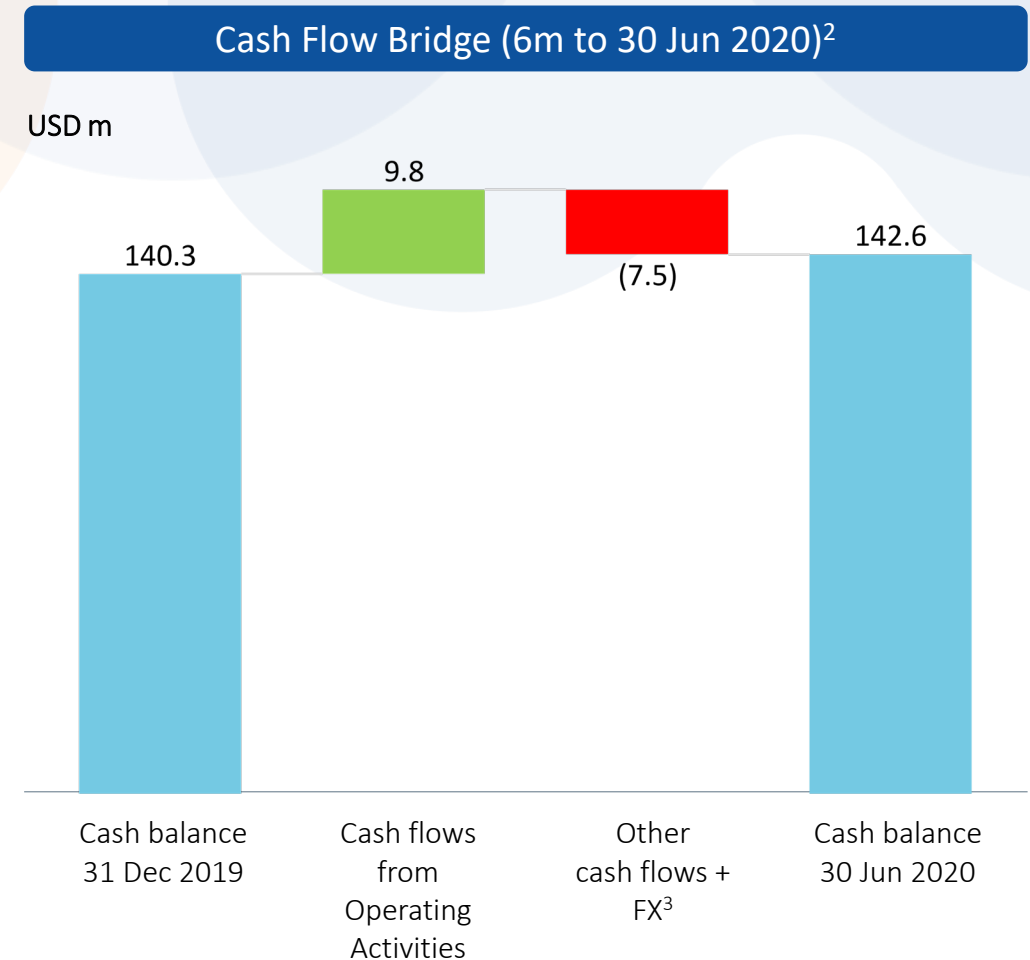
Note: <sup>1</sup> USD:JPY FX rates used – 108.253 (FY2020) and 110.064 (FY2019); <sup>2</sup> Unaudited management reporting values



# Diversified biotech business model generated significant cash inflows from operating activities

## Consolidated Balance Sheet

	JPY m		USD m	
	As of 30 Jun 2020 <sup>12</sup>	As of 31 Dec 2019 <sup>1</sup>	As of 30 Jun 2020 <sup>12</sup>	As of 31 Dec 2019 <sup>1</sup>
Goodwill & intangibles	25,304	27,364	234.9	249.8
Property, plant & equip.	3,604	4,120	33.5	37.6
Cash at hand	15,362	15,375	142.6	140.3
Equity Acc. investments	3,093	3,539	28.7	32.3
Other financial assets	1,030	2,053	9.6	18.7
Other assets	2,685	4,229	24.8	38.6
<b>Total Assets</b>	<b>51,078</b>	<b>56,680</b>	<b>474.1</b>	<b>517.3</b>
Other liabilities	10,139	11,602	94.1	105.8
<b>Total Liabilities</b>	<b>10,139</b>	<b>11,602</b>	<b>94.1</b>	<b>105.8</b>
<b>Net Assets</b>	<b>40,939</b>	<b>45,078</b>	<b>380.0</b>	<b>411.5</b>



Note: <sup>1</sup> USD:JPY FX rates used – 107.74 (FY2020) and 109.55 (FY2019) <sup>2</sup> Unaudited management reporting values <sup>3</sup> Includes cash flows from investing and financing activities

# Unchanged FY2020 Financial Guidance (12m to 31-Dec-20)

Guidance (FY2020)

## Cash R&D expenses

JPY 4,200 to 4,700m

- ✓ Increase number of programs fully funded by partners
- ✓ Extract savings from enhanced procurement practices
- ✓ 15+ new hires to be made to support growth in pipeline

## Cash G&A expenses

JPY 1,800 to 2,300m

- ✓ New ERP\* project has commenced with Oracle Netsuite selected
- ✓ Drive Group-wide efficiencies and enhance controls
- ✓ Replace legacy IT systems and focus on digital transformation

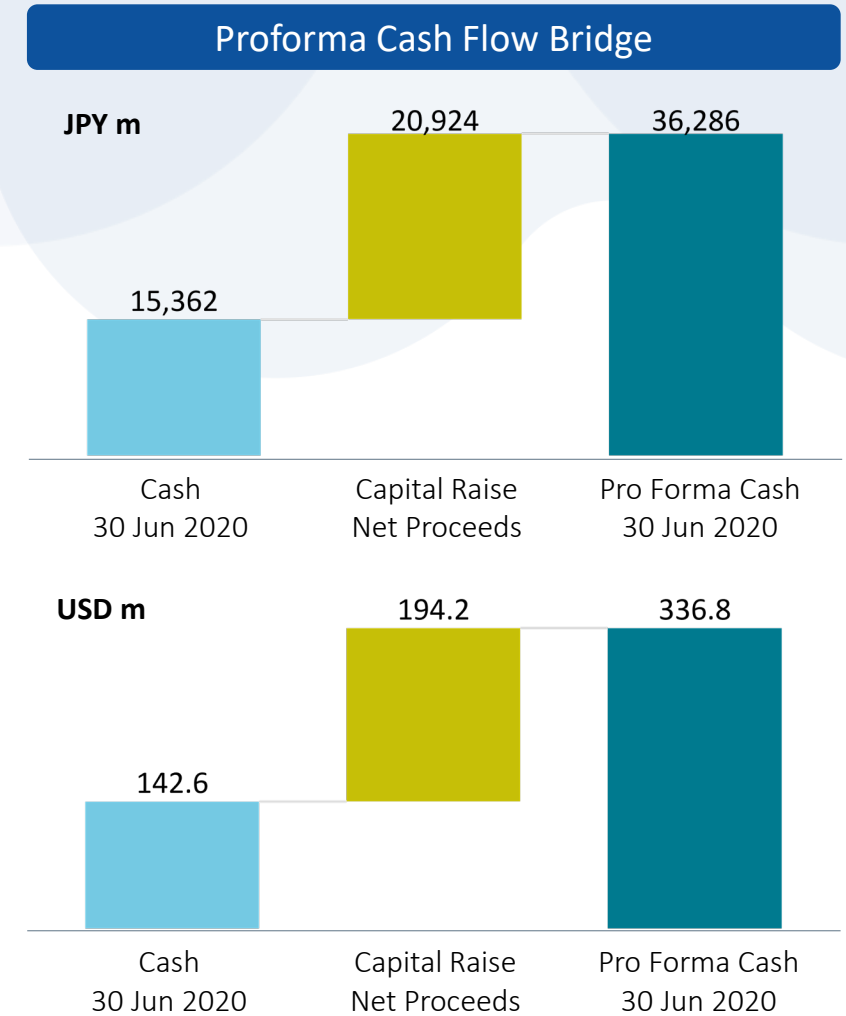
**Investing for the future** whilst maintaining a focus on costs and extracting efficiencies

Note: \* Enterprise Resource Planning (ERP)

# Successful International Offering raised net proceeds of JPY 20.9bn

Long-term growth capital to fast track our corporate ambition

- ✓ **Largest biotech-focused capital raise** out of Japan during COVID-19 pandemic
- ✓ Despite uncertain global economic outlook, **strong levels of investor support** enabled successful transaction
- ✓ Significantly **improved level of financial flexibility** and enhances our strategic options
- ✓ Funds will be deployed, with a focus on **accelerating long-term revenue growth through M&A** and **future-proofing and expanding our drug discovery platform**





2

# H1 FY2020 Operational Highlights

Shinichi Tamura, Chairman and CEO

# Summary Operational Highlights

Six-month period ended June 30, 2020



New **Discovery Collaboration and Option to License Agreement with AbbVie** discover, develop and commercialize novel small molecules targeting inflammatory and autoimmune diseases



**Enerzair® Breezhaler®** (QVM149) was **approved** in Japan and recommended for approval in the European Union (subsequently approved in July-20) for treating uncontrolled asthma



Significant **scientific progress** with orexin agonist program in conjunction with spin-off companies Orexia and Inexia, triggering the **next tranche of funding from Medicxi**

Note: Enerzair® and Breezhaler® are registered trademarks of Novartis AG

# Summary Operational Highlights (continued)

Six-month period ended June 30, 2020



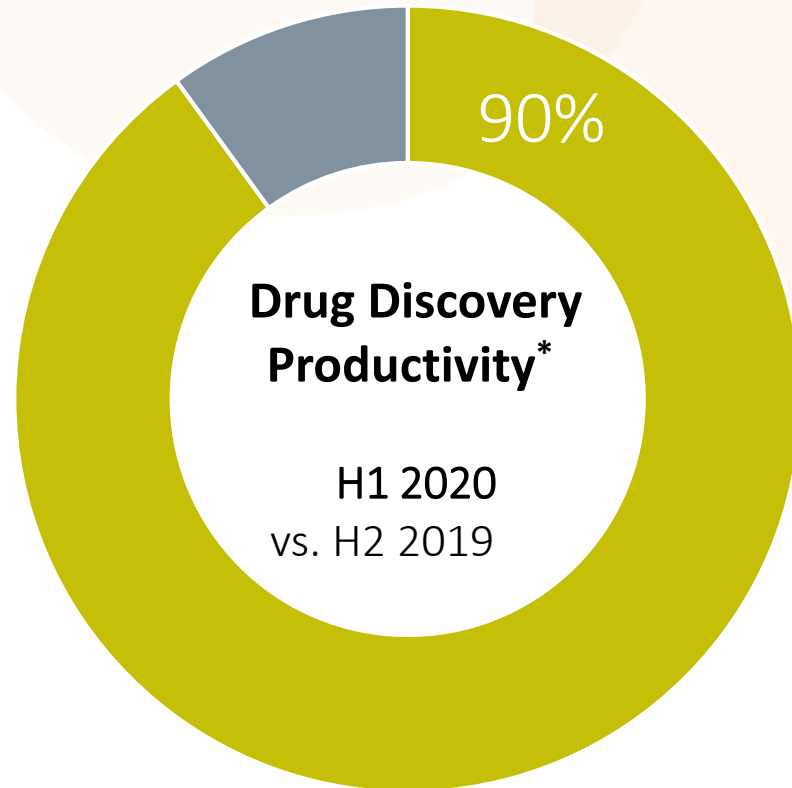
Initiated **COVID-19 R&D Program** to identify novel compounds that block the activity of the SARS-CoV-2 MPro protease and future variants, a protein essential for the viral life cycle



Search underway for **potentially transformative acquisitions**, as well as **investments in novel and complementary technologies** as a result of a successful **US\$194m capital raise**

Excellent progress seen across our business and pipeline development despite operating in an unprecedented and uncertain COVID-19 environment

# Swift action kept our R&D facility open and operational throughout lockdown, maintaining high levels of drug discovery productivity



No closure or shutdown of core UK R&D facility throughout lockdown

- 1 Remote working procedures in place. Essential R&D staff working optimized rotas
- 2 Social distancing and enhanced hygiene measures enacted at all offices
- 3 Operations focused on business-critical work and prioritizing key partners/collaborations
- 4 Business and corporate development transactions all executed virtually
- 5 Weekly SARS-CoV-2 testing in place for essential employees at UK facility

Note \*: Based on the average of a collection of internal measures of productivity in platform, chemistry and pharmacology

# On track to meet FY2020 goals outlined in February



Maintain **technology and platform leadership** in our chosen field

Solved several important GPCR molecular structures (incl. Orexia breakthrough)



Enter new high value drug discovery and development **partnerships with pharma/biotech**

Executed New Global Discovery and Development Collaboration with AbbVie



Achieve **important milestones** on existing partnered programs

Enerzair® and Breezhaler® approved in Japan



Seed multiple **new in-house drug candidates** in strategic areas for future high value partnering

H4, EP4, and GPR35 candidate nominations completed and will advance forward



**Advance selected in-house programs** in early-stage clinical studies for higher value partnering



Create new **long-term asset-centric companies** backed by venture capital

Note: Enerzair® and Breezhaler® are registered trademarks of Novartis AG





3

## Strategy update

Shinichi Tamura, Chairman and CEO

# Organic growth plan focused on building a broad pipeline to fuel multiple high value partnerships and co-owned investments

## ORGANIC GROWTH PLAN



Extend technology / **SBDD platform leadership**



**Generate novel candidates**, with the aim of **2 new preclinical candidate nominations per year**



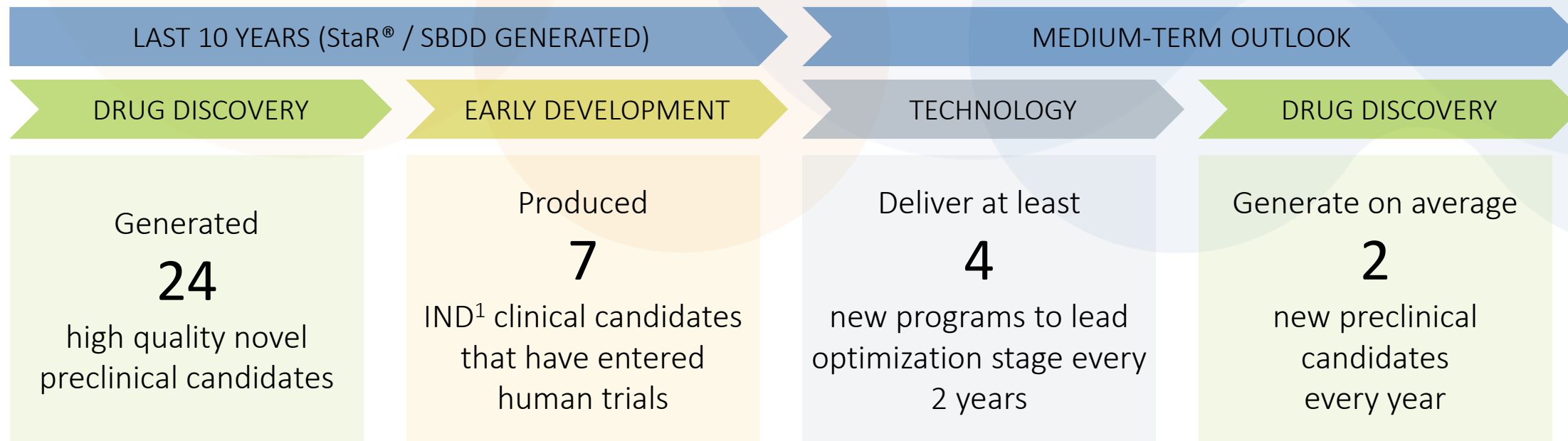
**Advance broad** drug discovery and early development **pipeline to fuel value creation**



Execute multiple **high value partnerships & co-owned investments**, targeting **2-3 deals per year**

Funded from existing cash flows

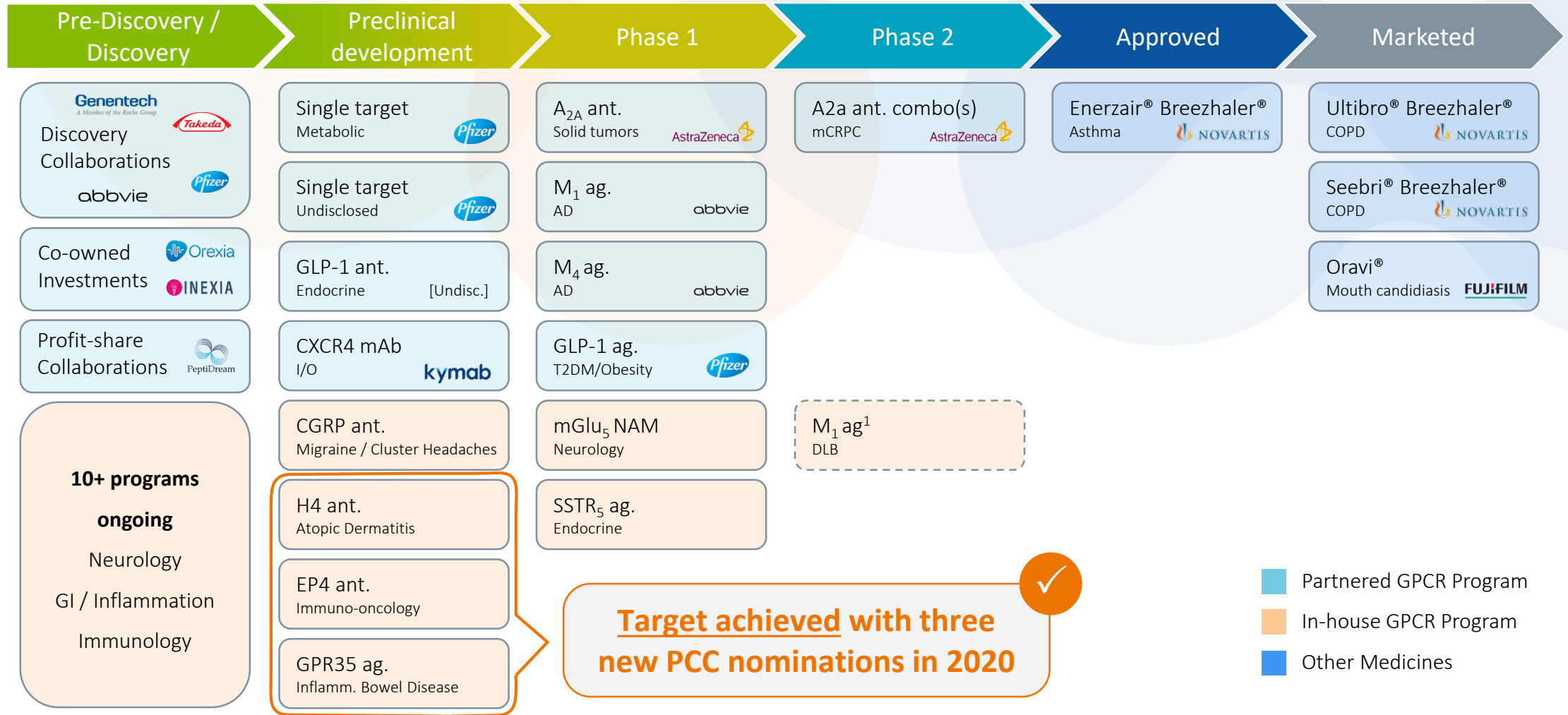
# Productive StaR<sup>®</sup>/SBDD drug discovery engine continues to generate multiple high quality candidates for the pipeline



Focus on first-in-class targets across immunology, neurology and gastroenterology, with validated translational biology. Further emphasis on small molecule chemistry with efficient synthesis.

Note: <sup>1</sup>IND = Investigational New Drug

# Broad and deep pipeline will continue to fuel future value creation



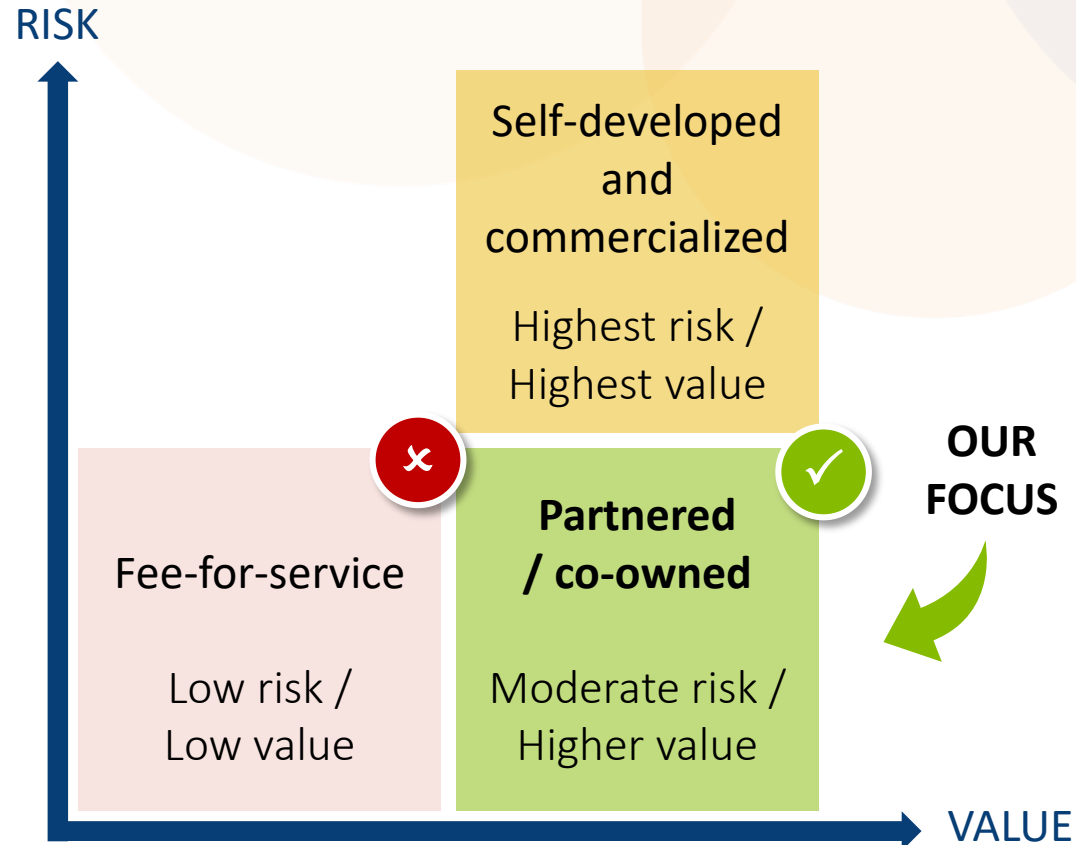
Our platform has produced in total over 20 pre-discovery and discovery programs, 13 programs in preclinical studies, and multiple programs advancing through clinical development

Note: Seebri®, Ultibro®, Energair® and Breezhaler® are registered trademarks of Novartis AG. <sup>1</sup> Phase 2 trial of HTL0018318 for DLB in Japan has been withdrawn. The Group plans to resubmit a new clinical trial notification for HTL0018318 (or another novel M<sub>1</sub> agonist) to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) in the future.

# Executing high value partnerships and co-owned investments are core to our balanced strategy



## Approaches to drug discovery and development



- ✓ Strategic focus on generating programs that will attract large partnership opportunities with global pharma and biotech or venture funds
- ✓ Primary goal is for us to achieve out-licensing economics of \$500m+ per partnered target / program
- ✓ Alternatively, we will seed novel candidates into co-owned asset-centric vehicles with long-term value upside

Targeting 2-3 new high value partnerships and co-owned investments every year

# Newly announced deal with AbbVie **consistent with strategy** to execute high value partnerships and co-owned investments









- 1 Initial focus on novel small molecules targeting **autoimmune and inflammatory diseases**
- 2 Sosei Heptares to apply its StaR®/SBDD capabilities and take candidates through to end of **IND-enabling studies**
- 3 AbbVie may then exercise its **exclusive license options** and assume global development and commercialisation responsibilities
- 4 Sosei Heptares to receive up to **US\$32 million** in upfront and near-term payments, plus **US\$377 million** in fees and milestones, plus royalties
- 5 **AbbVie has the option to expand** and select up to 3 additional targets

*“Combining AbbVie’s more than two decades of expertise in Immunology with researchers developing cutting-edge technologies...”*

abbvie

# New deal with AbbVie the latest of three major deals in the past 12 months



Partner	Program	Upfront / Near Term Payments	Potential Total Deal Value <sup>1</sup>	Additional Details
	2020 Discovery Collaboration and Option to License <sup>2</sup>	\$32m	\$400m+	Inflammatory and autoimmune diseases
	2019 Multi-target Collaboration	\$26m	\$1.2bn+	Initial focus on GI disorders
 <small>A Member of the Roche Group</small>	2019 Multi-target Collaboration	\$26m	\$1.0bn+	Exclusive global rights to novel agents
 <sup>3</sup>	2016 Alzheimer's Disease Collaboration	\$125m	\$3.2bn+	\$55m R&D funding committed to date
	2015 Multi-target Collaboration	Nil	\$1.8bn+	Directed at up to 10 GPCR targets
	2015 Immunology Collaboration	\$10m	\$500m+	Exclusive global rights to AZD4635, an A <sub>2A</sub> R antagonist

<sup>1</sup> Potential option fees, development, regulatory and commercial milestone payments, plus royalties on global commercial sales; <sup>2</sup> AbbVie has the option to expand the collaboration by an additional three targets; <sup>3</sup> Collaboration originally signed with Allergan plc in 2016. Allergan plc was acquired by AbbVie Inc. in May 2020.

# Strategic growth plan focused on acquiring a revenue generating asset, and investing in technologies at the forefront of science

## STRATEGIC GROWTH PLAN



Seek out a **transformative revenue-generating acquisition**



**Future-proof drug discovery platform** by investing in novel technologies



**Expand beyond GPCRs** into new drug target classes



**In-licensing late-stage assets** for Japan

Funded from recent capital raising



# We are searching for a transformative revenue-generating acquisition



## Illustrative Example – Pro Forma Revenue Impact



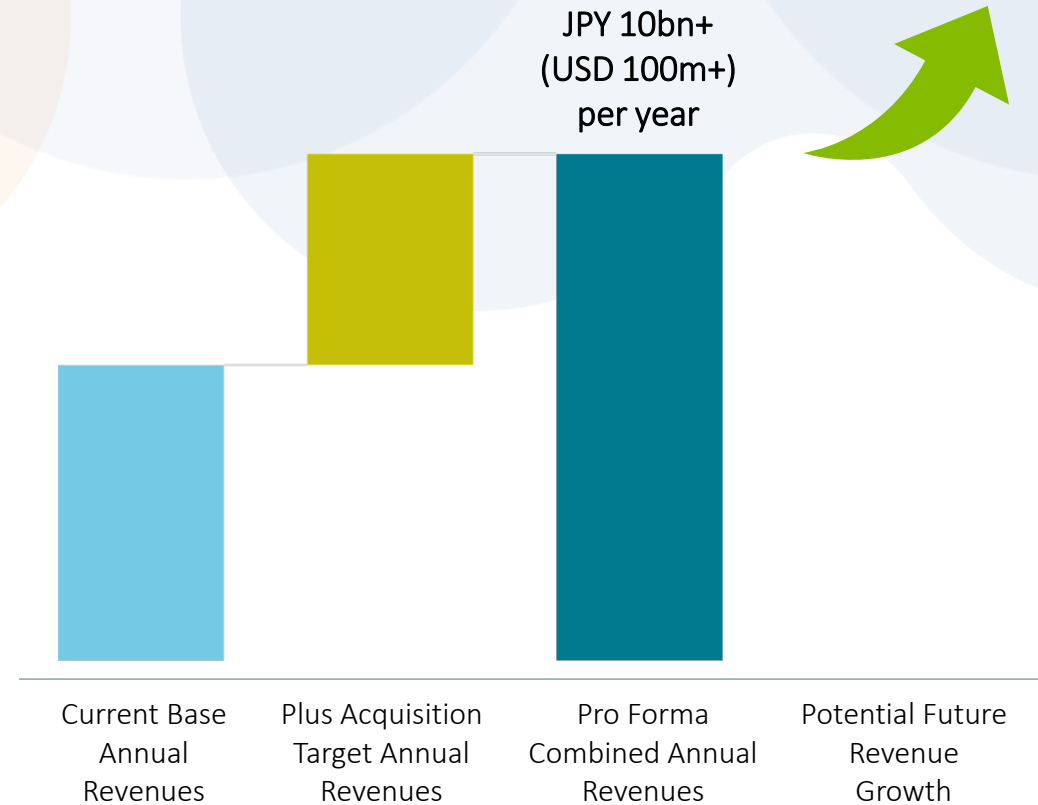
**Acquisition search has commenced** for revenue-generating companies, products or assets



Core target criteria includes minimum revenue generation of **at least JPY 5bn (USD 50m) per year and growing**



Multiple **therapeutic areas** and/or **complementary business types** are being considered

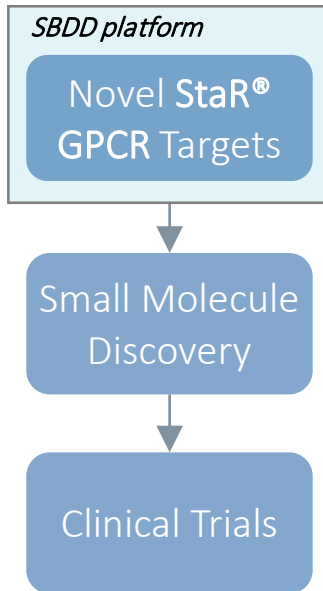


Aim is to create a global business with combined annual revenues of over JPY 10bn or USD 100m

# We plan to future-proof our drug discovery platform, and also expand into new drug target classes

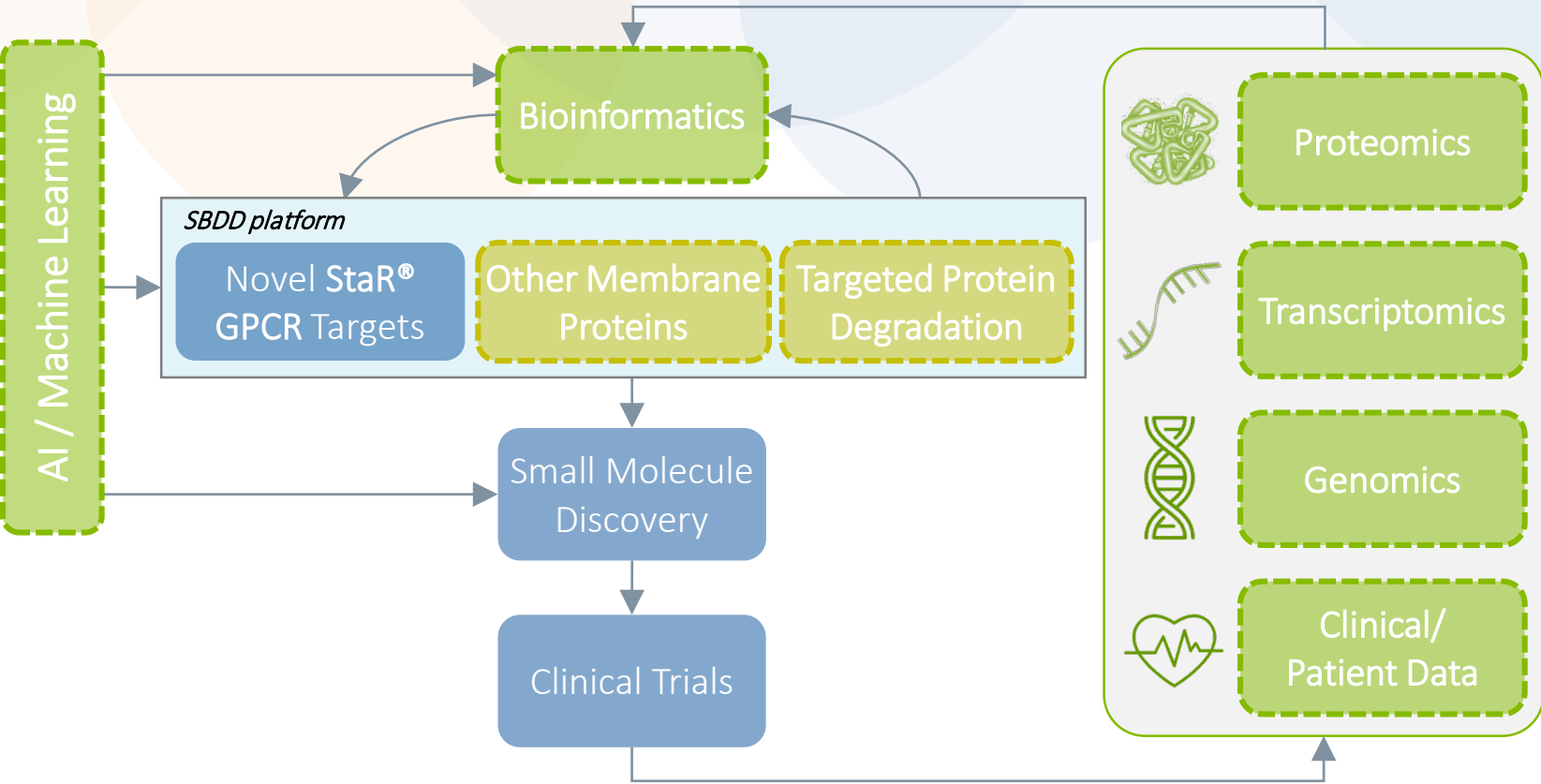


## OUR CURRENT APPROACH TO DRUG DISCOVERY



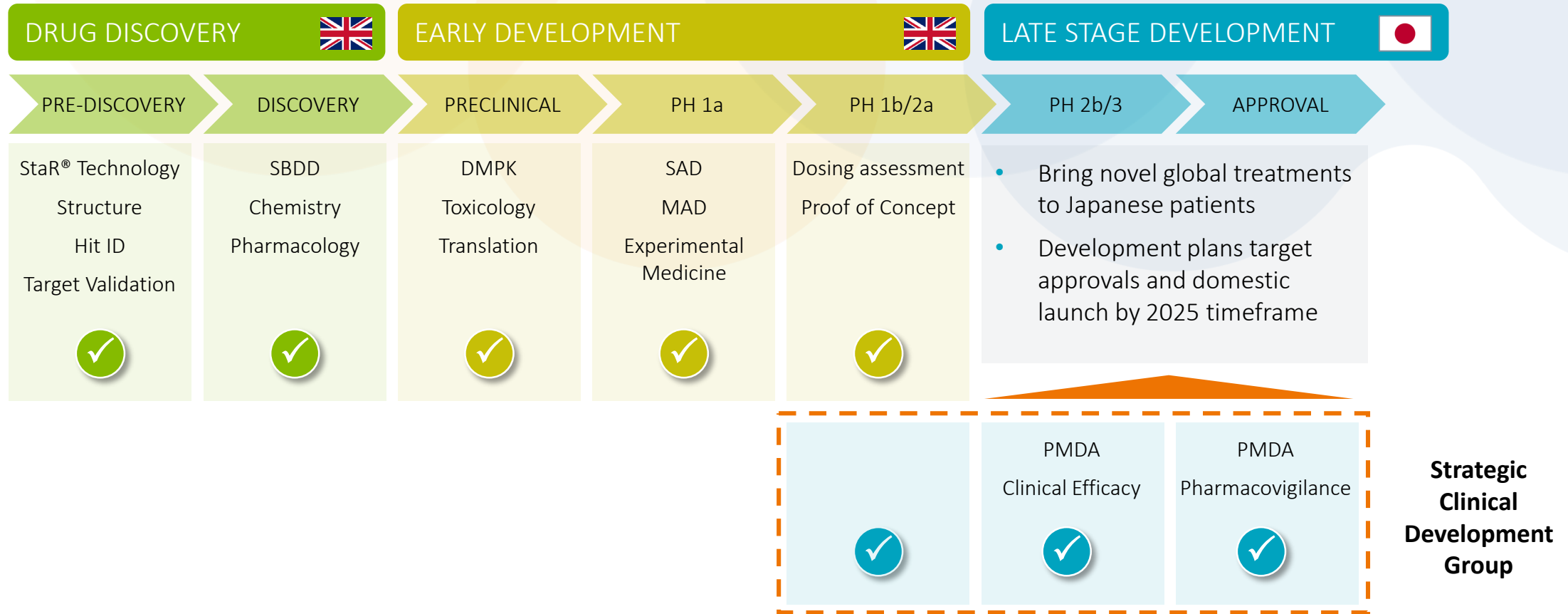
## FUTURE-PROOFING DRUG DISCOVERY BY INVESTING IN NEW TECHNOLOGIES

### EXPANDING DRUG DISCOVERY BEYOND GPCRS INTO NEW TARGET CLASSES



Maintain drug discovery leadership by expanding and leveraging our SBDD platform and know-how

# We plan to in-license late-stage assets from global pharma and develop them specifically for the Japanese market



Leveraging our clinical development group in Japan to bring novel US/EU treatments to Japanese patients with high unmet medical need

# Strongly enabled to fast-track our corporate ambitions





4

Appendix

# Proforma Unaudited Balance Sheet (As of 30-Jun-20)

Adjusted for net proceeds (USD194m) of Int'l Offering of new shares and convertible bonds

	JPY million		USD million	
	As of 30 Jun 2020	As of 31 Dec 2019	As of 30 Jun 2020	As of 31 Dec 2019
Goodwill & intangibles	25,304	27,364	234.9	249.8
Property, plant & equip.	3,604	4,120	33.5	37.6
Cash at hand	36,285	15,375	336.8	140.3
Equity Acc. investments	3,093	3,539	28.7	32.3
Other financial assets	1,030	2,053	9.6	18.7
Other assets	2,685	4,229	24.9	38.6
<b>Total Assets</b>	<b>72,001</b>	<b>56,680</b>	<b>668.4</b>	<b>517.3</b>
Bank loans	—	—	—	—
Convertible Debt	15,047	—	139.7	—
Other liabilities	10,139	11,602	94.1	105.8
<b>Total Liabilities</b>	<b>25,186</b>	<b>11,602</b>	<b>233.8</b>	<b>105.8</b>
<b>Net Assets</b>	<b>46,815</b>	<b>45,078</b>	<b>434.6</b>	<b>411.5</b>

Note: USD:JPY FX rates used – 107.74 (FY2020) and 109.55 (FY2019)

# Locations

## SOSEI HEPTARES

PMO Hanzomon 11F  
2-1 Kojimachi, Chiyoda-ku  
Tokyo 102-0083  
Japan

Steinmetz Building  
Granta Park, Cambridge  
CB21 6DG  
United Kingdom

North West House  
119 Marylebone Road  
London NW1 5PU  
United Kingdom