

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2019

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to

Commission File Number: 001-38583

**Crinetics Pharmaceuticals, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)  
  
10222 Barnes Canyon Road, Bldg. #2,  
San Diego, California  
(Address of principal executive offices)

26-3744114  
(I.R.S. Employer  
Identification No.)

92121  
(Zip code)

Registrant's telephone number, including area code: (858) 450-6464

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	CRNX	Nasdaq Global Select Market

As of April 30, 2019, the registrant had 24,138,177 shares of common stock (\$0.001 per share par value) outstanding.

CRINETICS PHARMACEUTICALS, INC.

QUARTERLY REPORT ON FORM 10-Q  
For the Quarter Ended March 31, 2019

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Crinetics Pharmaceuticals, Inc.  
Condensed Consolidated Balance Sheets

(In thousands)

	March 31, 2019 (Unaudited)	December 31, 2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 62,833	\$ 44,973
Short-term investments	94,379	118,902
Prepaid expenses and other current assets	1,903	2,808
Total current assets	159,115	166,683
Property and equipment, net	4,465	4,232
Operating lease right-of-use asset	2,683	—
Restricted cash	500	500
Total assets	<u>\$ 166,763</u>	<u>\$ 171,415</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 2,003	\$ 1,456
Accrued expenses and other current liabilities	5,304	4,190
Accrued compensation and benefits	1,511	2,279
Total current liabilities	8,818	7,925
Long-term operating lease liability	5,401	—
Deferred rent	—	3,063
Unvested stock liability	150	202
Total liabilities	14,369	11,190
<b>Commitments and contingencies (Note 7)</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.001 par, 10,000 shares authorized; no shares issued or outstanding at March 31, 2019 or at December 31, 2018	—	—
Common stock and paid-in capital, \$0.001 par, 200,000 shares authorized; 24,209 and 24,115 shares issued and outstanding at March 31, 2019; 24,188 and 24,061 shares issued and outstanding at December 31, 2018	204,645	203,544
Accumulated other comprehensive income	145	61
Accumulated deficit	(52,396)	(43,380)
Total stockholders' equity	152,394	160,225
Total liabilities and stockholders' equity	<u>\$ 166,763</u>	<u>\$ 171,415</u>

See the accompanying notes to these unaudited condensed consolidated financial statements.

**Crinetics Pharmaceuticals, Inc.**  
**Condensed Consolidated Statements of Operations and Comprehensive Loss**

(In thousands, except per share data)  
(Unaudited)

	Three months ended March 31,	
	2019	2018
Grant revenues	\$ 367	\$ 442
<b>Operating expenses:</b>		
Research and development	7,255	4,720
General and administrative	3,156	1,248
Total operating expenses	10,411	5,968
Loss from operations	(10,044)	(5,526)
<b>Other income (expense):</b>		
Interest income	1,010	64
Other income (expense)	18	(2)
Total other income (expense), net	1,028	62
Net loss	(9,016)	(5,464)
<b>Other comprehensive income (loss):</b>		
Unrealized gain on investments	84	—
<b>Comprehensive loss</b>	<b>\$ (8,932)</b>	<b>\$ (5,464)</b>
<b>Net loss per share:</b>		
Net loss per share – basic and diluted	\$ (0.37)	\$ (2.92)
Weighted-average shares outstanding – basic and diluted	24,095	1,870

*See the accompanying notes to these unaudited condensed consolidated financial statements.*

**Crinetics Pharmaceuticals, Inc.**

**Condensed Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)**

(In thousands, except per share data)  
(Unaudited)

	Convertible Preferred Stock		Common Stock Shares	Common stock and Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Balance at January 1, 2018	28,763	\$ 29,700	1,550	\$ 1,243	\$ —	\$ (16,265)	\$ (15,022)
Issuance of Series B convertible preferred stock, net	19,641	63,275	—	—	—	—	—
Vesting of founders shares and shares of common stock subject to repurchase	—	—	526	3	—	—	3
Exercise of common stock options	—	—	115	81	—	—	81
Stock-based compensation expense	—	—	—	426	—	—	426
Net loss	—	—	—	—	—	(5,464)	(5,464)
Balance at March 31, 2018	<u>48,404</u>	<u>\$ 92,975</u>	<u>2,191</u>	<u>\$ 1,753</u>	<u>\$ —</u>	<u>\$ (21,729)</u>	<u>\$ (19,976)</u>
Balance at January 1, 2019	—	\$ —	24,061	\$ 203,544	\$ 61	\$ (43,380)	\$ 160,225
Vesting of shares of common stock subject to repurchase	—	—	33	53	—	—	53
Exercise of common stock options	—	—	21	20	—	—	20
Stock-based compensation	—	—	—	1,028	—	—	1,028
Comprehensive income	—	—	—	—	84	—	84
Net loss	—	—	—	—	—	(9,016)	(9,016)
Balance at March 31, 2019	<u>—</u>	<u>\$ —</u>	<u>24,115</u>	<u>\$ 204,645</u>	<u>\$ 145</u>	<u>\$ (52,396)</u>	<u>\$ 152,394</u>

*See the accompanying notes to these unaudited condensed consolidated financial statements.*

**Crinetics Pharmaceuticals, Inc.**  
**Condensed Consolidated Statements of Cash Flows**

(In thousands)  
(Unaudited)

	Three months ended March 31,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net loss	\$ (9,016)	\$ (5,464)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	1,028	426
Depreciation and amortization	200	48
Amortization of operating lease right-of-use asset	53	—
Accretion of short-term investments	(400)	—
Other	3	2
Increase (decrease) in cash resulting from changes in:		
Prepaid expenses and other current assets	905	(290)
Accounts payable and accrued expenses	583	1,871
Operating lease liability	(115)	—
<b>Net cash used in operating activities</b>	<b>(6,759)</b>	<b>(3,407)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investment securities	(31,563)	—
Maturities of investment securities	56,570	—
Purchases of property and equipment	(408)	(57)
<b>Net cash provided by (used in) investing activities</b>	<b>24,599</b>	<b>(57)</b>
<b>Financing activities:</b>		
Proceeds from issuance of convertible preferred stock, net	—	63,393
Proceeds from exercise of stock options	20	253
Payment of initial public offering costs	—	(134)
<b>Net cash provided by financing activities</b>	<b>20</b>	<b>63,512</b>
<b>Net change in cash, cash equivalents and restricted cash</b>	<b>17,860</b>	<b>60,048</b>
<b>Cash, cash equivalents and restricted cash at beginning of period</b>	<b>45,473</b>	<b>14,192</b>
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$ 63,333</b>	<b>\$ 74,240</b>
<b>Noncash investing and financing activities:</b>		
Change in unvested stock liability	\$ 53	\$ (3)
Amounts accrued for purchases of property and equipment	\$ 27	\$ 67
Change in accrued preferred stock issuance and initial public offering costs	\$ —	\$ 301

*See the accompanying notes to these unaudited condensed consolidated financial statements.*

## Crinetics Pharmaceuticals, Inc.

### Notes to Unaudited Condensed Consolidated Financial Statements

#### 1. ORGANIZATION AND BASIS OF PRESENTATION

##### Description of Business

Crinetics Pharmaceuticals, Inc. (the “Company”) is a clinical stage pharmaceutical company incorporated in Delaware on November 18, 2008 and based in San Diego, California. The Company is focused on the discovery, development and commercialization of novel therapeutics for rare endocrine diseases and endocrine-related tumors. In January 2017, the Company established a wholly-owned Australian subsidiary, Crinetics Australia Pty Ltd (“CAPL”), in order to conduct various preclinical and clinical activities for its development candidates.

On July 6, 2018, the Company effected a 1-for-3.29 reverse stock split of its common stock. The par value and the authorized shares of the common stock were not adjusted as a result of the reverse stock split. The reverse stock split resulted in an adjustment to the conversion prices of the Company’s Series A and B preferred stock to reflect a proportional decrease in the number of shares of common stock to be issued upon conversion. The accompanying condensed consolidated financial statements and notes to the condensed consolidated financial statements give retroactive effect to the reverse stock split for all periods presented.

##### Unaudited Interim Financial Information

The accompanying interim condensed consolidated balance sheet as of March 31, 2019, the condensed consolidated statements of operations for the three months ended March 31, 2019 and 2018, the condensed consolidated statements of convertible preferred stock and stockholders’ equity (deficit) for the three months ended March 31, 2019 and 2018, and the condensed consolidated statements of cash flows for the three months ended March 31, 2019 and 2018, and the related disclosures are unaudited. In management’s opinion, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company’s financial position as of March 31, 2019 and the results of its operations and cash flows for the three months ended March 31, 2019 and 2018 in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The results for the three months ended March 31, 2019 are not necessarily indicative of the results expected for the full fiscal year or any other interim period.

##### Principles of Consolidation and Foreign Currency Transactions

The condensed consolidated financial statements include the accounts of the Company and CAPL. All intercompany accounts and transactions have been eliminated in consolidation. The functional currency of both the Company and CAPL is the U.S. dollar. The Company’s assets and liabilities that are not denominated in the functional currency are remeasured into U.S. dollars at foreign currency exchange rates in effect at the balance sheet date except for nonmonetary assets, which are remeasured at historical foreign currency exchange rates in effect at the date of transaction. Net realized and unrealized gains and losses from foreign currency transactions and remeasurement are reported in other income (expense), in the condensed consolidated statements of operations and were not material for all periods presented.

##### Segment Reporting

Operating segments are identified as components of an enterprise about which discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. The Company views its operations and manages its business in one operating segment.

##### Liquidity and Going Concern

From inception, the Company has devoted substantially all of its efforts to drug discovery and development and conducting preclinical studies and clinical trials. The Company has a limited operating history and the sales and income potential of the Company’s business and market are unproven. Successful transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support the Company’s cost structure.

As of March 31, 2019, the Company had \$157.2 million in unrestricted cash, cash equivalents and short-term investments. The Company believes it has sufficient cash to meet its funding requirements for at least the next 12 months. However, the Company has experienced net losses and negative cash flows from operating activities since its inception and has an accumulated deficit of \$52.4 million as of March 31, 2019. The Company expects to continue to incur net losses for the foreseeable future and believes it will need to raise substantial additional capital to accomplish its business plan over the next several years. The Company plans to continue to fund its losses from operations and capital funding needs through a combination of equity offerings, debt financings or other sources, including potential collaborations, licenses and other similar arrangements. If the Company is not able to secure adequate additional funding, the Company may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, or suspend or curtail planned programs. Any of these actions could materially harm the Company's business, results of operations and future prospects. There can be no assurance as to the availability or terms upon which such financing and capital might be available in the future.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Use of Estimates**

The Company's condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of the Company's condensed consolidated financial statements requires it to make estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the Company's condensed consolidated financial statements and accompanying notes. The most significant estimates in the Company's condensed consolidated financial statements relate to revenue recognition, accrued amounts receivable under the Australian research and development tax incentive program, accrued expenses and associated research and development expense, the assumptions underlying the determination of the estimated incremental borrowing rate for the determination of the operating lease right-of-use asset, and the assumptions underlying the determination of the fair value of equity awards for purposes of determining stock-based compensation. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, actual results may ultimately materially differ from these estimates and assumptions.

### **Fair Value Measurements**

The accounting guidance defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The carrying amounts of the Company's current financial assets, restricted cash and current financial liabilities are considered to be representative of their respective fair values because of the short-term nature of those instruments.



**Cash, Cash Equivalents and Restricted Cash**

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents include cash in readily available checking and money market accounts. Restricted cash represents cash held as collateral for the Company's facility lease and is reported as a long-term asset in the accompanying condensed consolidated balance sheets.

**Short-term Investments**

All investments have been classified as "available-for-sale" and are carried at fair value as determined based upon quoted market prices or pricing models for similar securities at period end. Investments with contractual maturities less than 12 months at the balance sheet date are considered short-term investments. Investments with contractual maturities beyond one year are also classified as short-term due to the Company's ability to liquidate the investment for use in operations within the next 12 months.

Unrealized gains and losses, deemed temporary in nature, are reported as a component of accumulated other comprehensive income (loss). A decline in the fair value of any security below cost that is deemed other than temporary results in a charge to earnings and the corresponding establishment of a new cost basis for the security. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold. The Company has not realized any significant gains or losses on sales of available-for-sale investment securities during any of the periods presented. Amortization of premiums, accretion of discounts, interest, and dividend income are included in interest income.

**Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains deposits in federally insured financial institutions in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to significant risk on its cash balances due to the financial position of the depository institution in which those deposits are held. Additionally, the Company has established guidelines regarding approved investments and maturities of investments, which are designed to maintain safety and liquidity.

**Leases**

The Company determines if an arrangement is a lease at the inception of the arrangement. Leases with a term longer than 12 months that are determined to be operating leases are included in operating lease assets, accrued expenses and other current liabilities and noncurrent operating lease liabilities in the condensed consolidated balance sheets based on the present value of the minimum lease payments called for under the arrangement. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

**Grant Revenue Recognition**

The Company's grant revenues are derived from Small Business Innovation Research ("SBIR") grants from the National Institutes of Health. The Company recognizes SBIR grant revenue as reimbursable grant costs are incurred. The costs associated with these reimbursements are reflected as a component of research and development expense in the accompanying condensed consolidated statements of operations. Earnings in excess of billings are included as a component of prepaid expenses and other current assets.

**Research and Development Expenses**

Research and development ("R&D") expenses consist primarily of salaries, payroll taxes, employee benefits and stock-based compensation charges for those individuals involved in R&D efforts, as well as consulting expenses, third-party R&D expenses, laboratory supplies, clinical materials and overhead, including facilities and depreciation costs, offset by the Australian Tax Incentive discussed below. R&D expenses are charged to expense as incurred. Payments made prior to the receipt of goods or services to be used in R&D are capitalized until the goods or services are received.

Costs incurred under contracts with contract research organizations (CROs) that conduct and manage the Company's clinical trials are also included in research and development expenses. The financial terms and activities of these agreements vary from contract to contract and may result in uneven expense levels. Generally, these agreements set forth activities that drive the recording of expenses such as start-up and initiation activities, enrollment and treatment of patients, or the completion of other clinical trial activities. Expenses related to clinical trials are accrued based on estimates and/or representations from service providers regarding work performed, including actual level of patient enrollment, completion of patient studies and progress of the clinical trials. Other incidental costs related to patient enrollment or treatment are accrued when reasonably certain. If the amounts that the Company is obligated to pay under its clinical trial agreements are modified (for instance, as a result of changes in the clinical trial protocol or scope of work to be performed), the Company adjusts its accruals accordingly on a prospective basis. Revisions to contractual payment obligations are charged to expense in the period in which the facts that give rise to the revision become reasonably certain.

#### **Australian Research and Development Tax Incentive**

CAPL is eligible to obtain a cash refund from the Australian Taxation Office for eligible R&D expenditures under the Australian Research and Development Tax Incentive Program (the "Australian Tax Incentive"). The Australian Tax Incentive is recognized as a reduction to R&D expense when there is reasonable assurance that the Australian Tax Incentive will be received, the relevant expenditure has been incurred, and the amount can be reliably measured. The Company recognized a reduction to R&D expense of \$47,000 and \$0.3 million for the three months ended March 31, 2019 and 2018, respectively.

#### **Stock-Based Compensation**

Stock-based compensation expense represents the cost of the grant date fair value of awards over the requisite service period of the awards (usually the vesting period) on a straight-line basis. For stock awards for which vesting is subject to performance-based milestones, the expense is recorded over the remaining service period after the point when the achievement of the milestone is probable, or the performance condition has been achieved. The Company estimates the fair value of all stock option grants using the Black-Scholes option pricing model and recognizes forfeitures as they occur.

#### **Comprehensive Loss**

Comprehensive loss is defined as a change in equity during a period from transactions and other events and circumstances from non-owner sources. Comprehensive gain (loss) consists of unrealized gains or losses on the Company's investment securities.

#### **Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding for the period, without consideration for potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock and dilutive common stock equivalents outstanding for the period determined using the treasury-stock and if-converted methods. Dilutive common stock equivalents are comprised of convertible preferred stock, common stock subject to repurchase, and options outstanding under the Company's stock option plan. For all periods presented, there is no difference in the number of shares used to calculate basic and diluted shares outstanding as inclusion of the potentially dilutive securities would be antidilutive.

#### **Recently Adopted Accounting Pronouncements**

##### **ASU 2016-02**

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 2016-02") which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. ASU 2016-02 establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. ASU 2016-02 also requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. On January 1, 2019, the Company adopted ASU 2016-02 using the modified retrospective transition method. Under this transition method, the Company recognized and measured leases that existed at the adoption date in the condensed consolidated balance sheet as of January 1, 2019.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term, discounted at the rate implicit in the lease. If the rate implicit in the lease cannot be determined, Topic 842 requires the use of the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term for a similar amount to the lease payments in a similar economic environment. The operating lease ROU asset is also adjusted for any prepaid or accrued lease payments and any lease incentives received. Operating lease terms may include options to extend or terminate the lease when it is reasonably certain that these options will be exercised. Further, the Company has elected to recognize short-term lease payments on a straight-line basis over the associated lease term and variable lease payments in the period in which the obligation for those payments is incurred. Short-term and variable lease payments were not material in the first quarter of 2019.

In connection with the adoption of ASU 2016-02, the Company elected the package of practical expedients requiring no reassessment of whether any expired or existing contracts contain leases, the lease classification of any expired or existing leases, or initial direct costs for any existing leases. The Company also made accounting policy elections not to apply the recognition requirements under ASU 2016-02 to any short-term leases and to account for each separate lease and associated non-lease components as a single lease component for all of the Company's leases.

Adoption of ASU 2016-02 resulted in recognition of a ROU asset of \$2.8 million and an operating lease liability of \$6.2 million, related to the lease of office and laboratory space; and the derecognition of deferred rent of \$3.4 million for certain lease incentives received previously. The comparative prior period information continues to be reported under the accounting standards in effect during those periods.

#### **ASU 2018-07**

In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees and applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. ASU 2018-07 was adopted by the Company on January 1, 2019 using the modified retrospective transition method with no impact on the condensed consolidated financial statements. As a result of adopting ASU 2018-07, the estimated fair value of stock awards issued to non-employees are determined at issuance and are no longer subject to revaluation over their vesting terms.

#### **Recent Accounting Pronouncements**

##### **ASU 2018-13**

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement," which improves the effectiveness of the disclosures required under ASC 820, "*Fair Value Measurements and Disclosures*" and modifies the disclosure requirements on fair value measurements, including the consideration of costs and benefits. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of this new standard on its consolidated financial statements.

### 3. INVESTMENT SECURITIES

The Company reports its available-for-sale investment securities at their estimated fair values based on quoted market prices for identical or similar instruments. Following is a summary of the available-for-sale short-term investments held by the Company as of March 31, 2019 and December 31, 2018 (*in thousands*):

	As of March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale investment securities:				
U.S. government and agency obligations	\$ 35,726	\$ 101	\$ —	\$ 35,827
Certificates of deposit	5,904	39	—	5,943
Commercial paper	30,581	—	—	30,581
Corporate debt securities	22,023	7	(2)	22,028
Total	<u>\$ 94,234</u>	<u>\$ 147</u>	<u>\$ (2)</u>	<u>\$ 94,379</u>
	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available-for-sale investment securities:				
U.S. government and agency obligations	\$ 42,193	\$ 72	\$ (1)	\$ 42,264
Certificates of deposit	5,408	—	—	5,408
Commercial paper	47,686	—	—	47,686
Corporate debt securities	23,554	2	(12)	23,544
Total	<u>\$ 118,841</u>	<u>\$ 74</u>	<u>\$ (13)</u>	<u>\$ 118,902</u>

All available-for-sale investment securities held at March 31, 2019 and December 31, 2018, had maturity dates of less than 24 months.

None of the Company's available-for-sale investment securities were in a material unrealized loss position at March 31, 2019 or December 31, 2018. The Company reviewed its investment holdings as of March 31, 2019 and determined that its unrealized losses were not considered to be other-than-temporarily impaired based upon (i) the financial strength of the issuing institution and (ii) the fact that no securities have been in an unrealized loss position for twelve months or more. As such, the Company has not recognized any impairment in its financial statements related to its available-for-sale investment securities.

### 4. FAIR VALUE MEASUREMENTS

The Company holds investment securities that consist of highly liquid, investment grade debt securities. The Company determines the fair value of its investment securities based upon one or more valuations reported by its investment accounting and reporting service provider. The investment service provider values the securities using a hierarchical security pricing model that relies primarily on valuations provided by an industry-recognized valuation service. Such valuations may be based on trade prices in active markets for identical assets or liabilities (Level 1 inputs) or valuation models using inputs that are observable either directly or indirectly (Level 2 inputs), such as quoted prices for similar assets or liabilities, yield curves, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, and broker and dealer quotes, as well as other relevant economic measures.

Financial assets measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 were as follows (in thousands):

	As of March 31, 2019			
	Level 1	Level 2	Level 3	Total
<b>Investment securities:</b>				
U.S. government and agency obligations	\$ 25,789	\$ 10,038	\$ —	\$ 35,827
Certificates of deposit	—	5,943	—	5,943
Commercial paper	—	30,581	—	30,581
Corporate debt securities	—	22,028	—	22,028
Total assets measured at fair value	<u>\$ 25,789</u>	<u>\$ 68,590</u>	<u>\$ —</u>	<u>\$ 94,379</u>

	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Investment securities:</b>				
U.S. government and agency obligations	\$ 22,275	\$ 19,989	\$ —	\$ 42,264
Certificates of deposit	—	5,408	—	5,408
Commercial paper	—	47,686	—	47,686
Corporate debt securities	—	23,544	—	23,544
Total assets measured at fair value	<u>\$ 22,275</u>	<u>\$ 96,627</u>	<u>\$ —</u>	<u>\$ 118,902</u>

The Company's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 3 during the three months ended March 31, 2019.

## 5. BALANCE SHEET DETAILS

Prepaid expenses and other current assets consist of the following (in thousands):

	March 31, 2019	December 31, 2018
SBIR grant receivable	\$ 415	\$ 568
Interest receivable	381	340
Australian tax incentive receivable	44	1,016
Prepaid expenses and other assets	1,063	884
Total	<u>\$ 1,903</u>	<u>\$ 2,808</u>

Property and equipment consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Leasehold improvements	\$ 3,494	\$ 3,494
Lab equipment	1,345	915
Office equipment	523	523
Computers and software	41	41
Property and equipment at cost	5,403	4,973
Accumulated depreciation and amortization	(938)	(741)
Total	<u>\$ 4,465</u>	<u>\$ 4,232</u>

Accrued expenses and other current liabilities consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Accrued research and development costs	\$ 4,140	\$ 3,634
Short-term operating lease liability	665	—
Other accrued expenses	499	556
Total	<u>\$ 5,304</u>	<u>\$ 4,190</u>

## 6. LEASES

*2018 Operating Lease.* In February 2018, as amended in March 2018, the Company entered into a non-cancelable operating lease for a new facility in San Diego, California. The lease has an initial term of seven years which expires in August 2025, and the Company has an option to extend the term of the lease for an additional five years and has a termination option subject to early termination fees. The lease is subject to base lease payments and additional charges for common area maintenance and other costs and includes certain lease incentives and tenant improvement allowances. Rent expense is being recognized on a straight-line basis over the term of the lease. The Company's incremental borrowing rate of 8.0% was used in its present value calculation as the facility lease does not have a stated implicit rate.

Rent expense was \$0.2 million and \$44,000 for the three months ended March 31, 2019 and 2018, respectively. Cash paid for amounts included in the measurement of lease liabilities for operating cash flow from operating leases was \$0.1 million for the three months ended March 31, 2019.

Under the terms of the lease, the Company provided the lessor with an irrevocable letter of credit in the amount of \$0.5 million. The lessor is entitled to draw on the letter of credit in the event of any default by the Company under the terms of the lease.

*Future Minimum Payments.* As of March 31, 2019, future minimum payments under non-cancellable operating leases were as follows (in thousands):

Year ending December 31,	Minimum Payments
2019 (9 months)	\$ 828
2020	1,123
2021	1,173
2022	1,208
2023	1,244
Thereafter	2,151
Total future minimum lease payments	7,727
Less imputed interest	1,661
Total operating lease liabilities	6,066
Less current operating lease liabilities	665
Long-term operating lease liabilities	<u>\$ 5,401</u>

## 7. COMMITMENTS AND CONTINGENCIES

### Litigation

From time to time, the Company may be subject to various claims and suits arising in the ordinary course of business. The Company does not expect that the resolution of these matters will have a material adverse effect on its financial position or results of operations.

## **8. CONVERTIBLE PREFERRED STOCK**

As of January 1, 2018, the Company had 28,763,179 shares of Series A convertible preferred stock outstanding. In February and March 2018, the Company issued an aggregate of 19,641,200 shares of its Series B convertible preferred stock for total proceeds of \$63.5 million, net of issuance costs of \$0.2 million. The holders of the Company's Series A and B convertible preferred stock were entitled to certain customary preferences, such as dividend and liquidation priority in relationship to the common shareholders, and certain anti-dilution protection. The convertible preferred stock was classified outside of stockholders' equity (deficit) because the shares contained certain redemption features that were not solely within the control of the Company.

In connection with the Company's initial public offering in July 2018, all of these shares of convertible preferred stock automatically converted into 14,712,571 shares of common stock.

## **9. EQUITY INCENTIVE PLANS**

### **2018 Incentive Award Plan**

In July 2018, the Company adopted the 2018 Incentive Award Plan (the "2018 Plan"). Under the 2018 Plan, which expires in July 2028, the Company may grant equity-based awards to individuals who are employees, officers, directors or consultants of the Company. Options issued under the 2018 Plan, will generally expire ten years from the date of grant and vest over a four-year period. As of March 31, 2019, 2,463,924 shares were available for future issuance under the 2018 Plan.

The 2018 Plan contains a provision that allows annual increases in the number of shares available for issuance on the first day of each calendar year through January 1, 2028 in an amount equal to the lesser of: (i) 5% of the aggregate number of shares of the Company's common stock outstanding on December 31 of the immediately preceding calendar year, or (ii) such lesser amount determined by the Company.

### **2015 Stock Incentive Plan**

In February 2015, the Company adopted the Crinetics Pharmaceuticals, Inc. 2015 Stock Incentive Plan (the "2015 Plan"), which provided for the issuance of equity awards to the Company's employees, members of its board of directors and consultants. In general, options issued under this plan vest over four years and expire after 10 years. Subsequent to the adoption of the 2018 Plan, no additional equity awards can be made under the 2015 Plan.

Certain awards under the 2015 Plan allowed for exercise prior to vesting. Shares issued under such early-exercise provisions are subject to repurchase by the Company until they become fully vested. As of March 31, 2019, 93,386 unvested shares issued under early-exercise provisions were subject to repurchase by the Company. The condensed consolidated balance sheet reflects an unvested stock liability of \$0.2 million as of March 31, 2019.

### **2018 Employee Stock Purchase Plan**

In July 2018, the Company adopted the 2018 Employee Stock Purchase Plan (the "ESPP"). The ESPP permits participants to purchase common stock through payroll deductions of up to 20% of their eligible compensation. As of March 31, 2019, an aggregate of 472,336 shares of common stock were available for issuance under the ESPP.

The ESPP contains a provision that allows annual increases in the number of shares available for issuance on the first day of each calendar year through January 1, 2028 in an amount equal to the lesser of: (i) 1% of the aggregate number of shares of the Company's common stock outstanding on December 31 of the immediately preceding calendar year, or (ii) such lesser amount determined by the Company.

## Stock Options

Stock option activity during the three months ended March 31, 2019 under both of the 2015 Plan and the 2018 Plan is as follows:

	Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Term	Aggregate Intrinsic Value (000's)
Balance at December 31, 2018	2,339,157	\$ 6.40		
Granted	600,850	\$ 25.18		
Exercised	(21,215)	\$ 0.96		\$ 506
Balance at March 31, 2019	<u>2,918,792</u>	\$ 10.30	9.0	\$ 38,226
Exercisable at March 31, 2019	<u>682,503</u>	\$ 3.14	8.3	\$ 13,390

## Fair Value of Stock Option Awards

The Company utilizes the Black-Scholes option pricing model to value awards under its equity plans. The following table summarizes the weighted average assumptions used to estimate the fair value of stock options granted to employees under the Company's stock option plans and the shares purchasable under the ESPP during the periods presented:

Stock Option Plans	2019	2018
Expected life of option	6.0 years	6.0 years
Volatility	78%	70%
Risk free interest rate	2.4%	2.7%
Dividend yield	—%	—%
<b>Employee Stock Purchase Plan</b>	<b>2019</b>	<b>2018</b>
Expected life of option	1.1 years	N/A
Volatility	66%	N/A
Risk free interest rate	2.4%	N/A
Dividend yield	—%	N/A

The key assumptions used in determining the fair value of equity awards, and the Company's rationale, were as follows: (i) *Expected term* - the expected term represents the period that options are expected to be outstanding and has been estimated using the simplified method, which is an average of the contractual option term and its vesting period; (ii) *Expected volatility* - the expected volatility assumption is based on volatilities of a peer group of similar companies in the biotechnology industry whose share prices are publicly available; (iii) *Risk-free interest rate* - the risk-free interest rate is based on the U.S. Treasury yield in effect at the time of grant for zero coupon U.S. Treasury notes with maturities that approximate the expected terms of awards; and (iv) *Expected dividend yield* - the expected dividend yield assumption is zero as the Company has never paid cash dividends and has no present intention to do so in the near future.

The weighted-average fair value of stock options granted to employees during the first quarter of 2019 and 2018 was \$17.31 and \$1.17 per share, respectively.



### Stock-Based Compensation Expense

Stock-based compensation expense for the equity awards issued by the Company to employees and non-employees for the periods presented below was as follows (in thousands):

	Three months ended March 31,	
	2019	2018
Included in research and development	\$ 539	\$ 161
Included in general and administrative	489	265
Total	<u>\$ 1,028</u>	<u>\$ 426</u>

Unrecognized stock-based compensation cost related to employee awards was \$19.3 million as of March 31, 2019, which is expected to be recognized over a remaining weighted-average period of approximately 3.1 years.

Unrecognized stock-based compensation cost related to the ESPP was \$0.5 million as of March 31, 2019, which is expected to be recognized over a remaining period of approximately 1.2 years.

### 10. NET LOSS PER SHARE

Potentially dilutive securities not included in the calculation of diluted net loss per share because to do so would be anti-dilutive are as follows (in common stock equivalent shares):

	Three months ended March 31,	
	2019	2018
Convertible preferred stock outstanding	—	14,713
Common stock options	2,919	1,458
Unvested common stock subject to repurchase	93	104
	<u>3,012</u>	<u>16,275</u>

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion of our financial condition and results of operations in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018.*

### **Forward Looking Statements**

*The following discussion and other parts of this quarterly report contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this quarterly report, including statements regarding our future results of operations and financial position, business strategy, prospective products, product approvals, research and development costs, timing and likelihood of success, plans and objectives of management for future operations and future results of anticipated products, are forward-looking statements. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "should," "estimate," or "continue," and similar expressions or variations. The forward-looking statements in this quarterly report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives. These forward-looking statements speak only as of the date of this quarterly report and are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, "Risk Factors." The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.*

### **Overview**

We are a clinical stage pharmaceutical company focused on the discovery, development and commercialization of novel therapeutics for rare endocrine diseases and endocrine-related tumors. Endocrine pathways function to maintain homeostasis and commonly use peptide hormones acting through G-protein-coupled receptors ("GPCRs") to regulate many aspects of physiology including growth, energy, metabolism, gastrointestinal function and stress responses. We have assembled a seasoned team with extensive expertise in drug discovery and development in endocrine GPCRs and built a highly productive drug discovery organization. We have discovered a pipeline of oral nonpeptide (small molecule) new chemical entities that target peptide GPCRs to treat a variety of rare endocrine diseases where treatment options have significant efficacy, safety and/or tolerability limitations. Our lead product candidate, CRN00808, is currently in clinical development for the treatment of acromegaly, and we are advancing additional product candidates through preclinical studies in parallel. Our vision is to build the leading endocrine company which consistently pioneers new therapeutics to help patients better control their disease and improve their daily lives.

We focus on the discovery and development of oral nonpeptide therapeutics that target peptide GPCRs with well understood biological functions, validated biomarkers and the potential to substantially improve the treatment of endocrine diseases and/or endocrine-related tumors. Our pipeline consists of the following two product candidates and preclinical programs:

- CRN00808, our lead product candidate, establishes a new class of oral selective nonpeptide somatostatin receptor 2 ("sst2") biased agonists designed for the treatment of acromegaly. We have initiated two global Phase 2 clinical trials of CRN00808 in acromegaly patients, the ACROBAT EVOLVE ("EVOLVE") and ACROBAT EDGE ("EDGE") studies. The EVOLVE trial is a double-blind, placebo-controlled, randomized withdrawal study designed to evaluate the safety, efficacy and pharmacokinetics of CRN00808, in subjects with acromegaly that respond to octreotide LAR or lanreotide depot monotherapy. The EDGE trial is an open label exploratory study designed to evaluate the safety, efficacy and pharmacokinetics of CRN00808 in subjects with acromegaly that are treated with somatostatin analog based treatment regimens but do not respond completely to monotherapy. The EVOLVE and EDGE studies are being conducted at centers in the United States and in certain European countries. In March 2019, we dosed the first patients in the EVOLVE and EDGE studies.

- CRN01941 is an oral nonpeptide sst2 biased agonist designed for the treatment of neuroendocrine tumors, that originate from neuroendocrine cells commonly found in the gut, lung or pancreas. We expect to initiate a Phase 1 human proof-of-concept clinical trial in the first half of 2019 and expect results from this trial in late 2019/early 2020.
- We are developing a new class of oral selective nonpeptide somatostatin receptor 5 (“sst5”) agonists designed to treat congenital hyperinsulinism (“CHP”).
- We are developing the first nonpeptide product candidate to antagonize peptide adrenocorticotrophic hormone (ACTH), designed for the treatment of Cushing’s disease.

To date, we have devoted substantially all of our resources to drug discovery, conducting preclinical studies and clinical trials, obtaining and maintaining patents related to our product candidates, and the provision of general and administrative support for these operations. We recognize revenues from various research and development grants, but do not have any products approved for sale and have not generated any product sales. We have funded our operations primarily through the private placement of preferred stock, grant revenues and our initial public offering. Through March 31, 2019, we have raised gross proceeds of approximately \$210.8 million to fund our operations from the issuance of common stock in our initial public offering (“IPO”) in July 2018 as well as, prior to our IPO, through issuance of convertible preferred stock. As of March 31, 2019, we had unrestricted cash, cash equivalents and short-term investments of \$157.2 million.

We have incurred cumulative net losses since our inception and, as of March 31, 2019, we had an accumulated deficit of \$52.4 million. Our net losses may fluctuate significantly from quarter-to-quarter and year-to-year, depending on the timing of our preclinical studies and clinical trials and our expenditures on other research and development activities. We expect our expenses and operating losses will increase substantially as we conduct our ongoing and planned clinical trials, continue our research and development activities and conduct preclinical studies, hire additional personnel, protect our intellectual property and incur additional costs associated with being a public company, including audit, legal, regulatory, and tax-related services associated with maintaining compliance with exchange listing and Securities and Exchange Commission (“SEC”) requirements, director and officer insurance premiums, and investor relations costs.

We do not expect to generate any revenues from product sales unless and until we successfully complete development and obtain regulatory approval for one or more of our product candidates, which we expect will take a number of years. If we obtain regulatory approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Accordingly, until such time as we can generate significant revenue from sales of our product candidates, if ever, we expect to finance our cash needs through equity offerings, debt financings or other capital sources, including potentially collaborations, licenses and other similar arrangements. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter into such other arrangements when needed would have a negative impact on our financial condition and could force us to delay, scale back or discontinue the development of our existing product candidates or our efforts to expand our product pipeline.

#### **Australian operations**

In January 2017, we established Crinetics Australia Pty Ltd (“CAPL”), a wholly-owned subsidiary which was formed to conduct various preclinical and clinical activities for our product and development candidates. We believe CAPL will be eligible for certain financial incentives made available by the Australian government for research and development expenses. Specifically, the Australian Taxation Office provides for a refundable tax credit in the form of a cash refund equal to 43.5% of qualified research and development expenditures under the Australian Research and Development Tax Incentive Program (the “Australian Tax Incentive”), to Australian companies that operate the majority of their research and development activities associated with such projects in Australia. A wholly-owned Australian subsidiary of a non-Australian parent company is eligible to receive the refundable tax credit, provided that the Australian subsidiary retains the rights to the data and intellectual property generated in Australia, and provided that the total revenues of the parent company and its consolidated subsidiaries during the period for which the refundable tax credit is claimed are less than \$20.0 million Australian dollars. If we lose our ability to operate CAPL in Australia, or if we are ineligible or unable to receive the research and development tax credit, or the Australian government significantly reduces or eliminates the tax credit, the actual refund amounts we receive may differ from our estimates.

## **Financial operations overview**

### ***Grant revenues***

To date, we have not generated any revenues from the commercial sale of approved products, and we do not expect to generate revenues from the commercial sale of our product candidates for at least the foreseeable future, if ever. Revenues for 2019 and 2018 were derived from Small Business Innovation Research Grants (“SBIR Grants”) awarded to us by the National Institute of Diabetes and Digestive and Kidney Diseases of the National Institutes of Health. We do not currently expect future grant revenues to be a material source of funding.

### ***Research and development***

To date, our research and development expenses have related primarily to discovery efforts and preclinical and clinical development of our product candidates. Research and development expenses are recognized as incurred and payments made prior to the receipt of goods or services to be used in research and development are capitalized until the goods or services are received.

Research and development expenses include:

- salaries, payroll taxes, employee benefits, and stock-based compensation charges for those individuals involved in research and development efforts;
- external research and development expenses incurred under agreements with contract research organizations, or CROs, investigative sites and consultants to conduct our clinical trials and preclinical and non-clinical studies;
- costs related to manufacturing our product candidates for clinical trials and preclinical studies, including fees paid to third-party manufacturers;
- costs related to compliance with regulatory requirements;
- laboratory supplies; and
- facilities, depreciation and other allocated expenses for rent, facilities maintenance, insurance, equipment and other supplies.

We recognize the Australian Tax Incentive as a reduction of research and development expense. The amounts are determined based on eligible research and development expenditures. The Australian Tax Incentive is recognized when there is reasonable assurance that the Australian Tax Incentive will be received, the relevant expenditure has been incurred, and the amount of the Australian Tax Incentive can be reliably measured.

Our direct research and development expenses consist principally of external costs, such as fees paid to CROs, investigative sites and consultants in connection with our clinical trials, preclinical and non-clinical studies, and costs related to manufacturing clinical trial materials. The majority of our third-party expenses during 2019 and 2018 related to the research and development of CRN00808. We deploy our personnel and facility related resources across all of our research and development activities.

Our clinical development costs may vary significantly based on factors such as:

- per patient trial costs;
- the number of trials required for approval;
- the number of sites included in the trials;
- the countries in which the trials are conducted;
- the length of time required to enroll eligible patients;
- the number of patients that participate in the trials;
- number of doses that patients receive;
- drop-out or discontinuation rates of patients
- potential additional safety monitoring requested by regulatory agencies;
- the duration of patient participation in the trials and follow-up;
- the cost and timing of manufacturing our product candidates;
- the phase of development of our product candidates; and
- the efficacy and safety profile of our product candidates.

We plan to substantially increase our research and development expenses for the foreseeable future as we continue the development of our product candidates and discovery of new product candidates. We cannot determine with certainty the timing of initiation, the duration or the completion costs of current or future preclinical studies and clinical trials of our product candidates due to the inherently unpredictable nature of preclinical and clinical development. Clinical and preclinical development timelines, the probability of success and development costs can differ materially from expectations. We anticipate that we will make determinations as to which product candidates to pursue and how much funding to direct to each product candidate on an ongoing basis in response to the results of ongoing and future preclinical studies and clinical trials, regulatory developments and our ongoing assessments as to each product candidate's commercial potential. We will need to raise substantial additional capital in the future. In addition, we cannot forecast which product candidates may be subject to future collaborations, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements.

#### ***General and administrative***

General and administrative expenses consist primarily of salaries and employee-related costs, including stock-based compensation, for personnel in executive, finance and other administrative functions. Other significant costs include facility-related costs, legal fees relating to intellectual property and corporate matters, professional fees for accounting and consulting services, insurance costs and commercial planning expenses. We anticipate that our general and administrative expenses will increase in the future to support our continued research and development activities and, if any of our product candidates receive marketing approval, commercialization activities. We also anticipate increased expenses related to audit, legal, regulatory, and tax-related services associated with maintaining compliance with exchange listing and SEC requirements, director and officer insurance premiums, and investor relations costs associated with operating as a public company.

#### **Critical Accounting Policies and Estimates**

This discussion and analysis of our financial condition and results of operations is based on our condensed financial statements, which we have prepared in accordance with United States generally accepted accounting principles. The preparation of these condensed financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of expenses during the reporting periods. We base our estimates on historical experience and on various other factors and assumptions that we believe are reasonable under the circumstances at the time the estimates are made, the results of which form the basis for making judgments about the book values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We periodically evaluate our estimates and judgments, including those described in greater detail below, in light of changes in circumstances, facts and experience.

Our critical accounting policies are those accounting principles generally accepted in the United States that require us to make subjective estimates and judgments about matters that are uncertain and are likely to have a material impact on our financial condition and results of operations, as well as the specific manner in which we apply those principles. For a description of our critical accounting policies, please see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Significant Judgments and Estimates" contained in our Annual Report on Form 10-K for the year ended December 31, 2018. There have not been any material changes to the critical accounting policies discussed therein during the quarter ended March 31, 2019 other than related to leases due to adoption of Topic 842 (see Note 6 of the Notes to the Condensed Consolidated Financial Statements).

## Results of Operations

### Comparison of the three months ended March 31, 2019 and 2018

The following table summarizes our results of operations for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		Dollar Change
	2019	2018	
Grant revenues	\$ 367	\$ 442	\$ (75)
Operating expenses:			
Research and development	7,255	4,720	2,535
General and administrative	3,156	1,248	1,908
Total operating expenses	10,411	5,968	4,443
Loss from operations	(10,044)	(5,526)	(4,518)
Other income (expense), net	1,028	62	966
Net loss	<u>\$ (9,016)</u>	<u>\$ (5,464)</u>	<u>\$ (3,552)</u>

*Grant revenues.* Grant revenues were \$0.4 million for each of the three months ended March 31, 2019 and 2018 and relate to reimbursable expenses under our SBIR Grants.

*Research and development expenses.* Research and development expenses were \$7.3 million and \$4.7 million for the three months ended March 31, 2019 and 2018, respectively. The increase was primarily due to increased manufacturing and development activities associated with our clinical and nonclinical activities for CRN00808 of \$0.5 million as well as our other preclinical programs. Additionally, first quarter 2019 results reflect an increase in personnel related costs due to the hiring of additional development personnel of \$1.0 million, including \$0.4 million of additional stock-based compensation, and increased facility costs due to the expansion of our leased facilities.

*General and administrative expenses.* General and administrative expenses were \$3.2 million and \$1.2 million for the three months ended March 31, 2019 and 2018, respectively. The increase was primarily due to an increase in spending on pre-commercialization activities and corporate legal services of \$0.9 million, and an increase in personnel related costs of \$0.5 million, including \$0.2 million of additional stock-based compensation costs, as well as expenses to operate as a publicly-traded company.

*Other income (expense).* Other income (expense), net was \$1.0 million and \$62,000 for the three months ended March 31, 2019 and 2018, respectively. The increase was primarily due to interest income earned on higher cash and investment balances due to the funds raised from investors in 2018.

## Cash Flows

We have incurred cumulative net losses and negative cash flows from operations since our inception and anticipate we will continue to incur net losses for the foreseeable future. As of March 31, 2019, we had an accumulated deficit of \$52.4 million. As of March 31, 2019, we had unrestricted cash, cash equivalents and short-term investments of \$157.2 million.

The following table provides information regarding our cash flows for the three months ended March 31, 2019 and 2018 (*in thousands*):

	Three months ended March 31,	
	2019	2018
Net cash used in operating activities	\$ (6,759)	\$ (3,407)
Net cash provided by (used in) investing activities	24,599	(57)
Net cash provided by financing activities	20	63,512
Net change in cash, cash equivalents and restricted cash	<u>\$ 17,860</u>	<u>\$ 60,048</u>

*Operating Activities.* Net cash used in operating activities was \$6.8 million and \$3.4 million for the three months ended March 31, 2019 and 2018, respectively. The increase in cash used in operations was primarily attributable to development and manufacturing activities associated with CRN00808 as well as our clinical and preclinical programs, and higher personnel costs. The net cash used in operating activities during the three months ended March 31, 2019 was primarily due to our net loss of \$9.0 million, adjusted for \$0.9 million of noncash charges, primarily for stock-based compensation and depreciation, and a \$1.4 million change in operating assets and liabilities. Net cash used in operating activities during the three months ended March 31, 2018 was primarily due to our net loss of \$5.5 million, adjusted for \$0.5 million of noncash charges, primarily for stock-based compensation and depreciation expense, and a \$1.6 million change in operating assets and liabilities.

*Investing activities.* Investing activities consist primarily of purchases and maturities of investment securities and, to a lesser extent, the cash outflow associated with purchases of property and equipment. Such activities resulted in a net inflow of funds of approximately \$24.6 million during the first quarter of 2019, compared to approximately \$57,000 used during the same period in 2018.

*Financing activities.* Net cash provided by financing activities was \$20,000 and \$63.5 million for the three months ended March 31, 2019 and 2018, respectively. The net cash provided by financing activities during 2019 was the result of the exercise of stock options. The net cash provided by financing activities during 2018 was primarily due to the net proceeds of \$63.3 million from the sale of Series B convertible preferred stock, and \$0.3 million from the exercise of common stock options, partially offset by vendor payments associated with the Company's initial public offering.

## **Liquidity and Capital Resources**

We believe that our existing cash, cash equivalents and short-term investments, together with investment income, and future payments due under our SBIR Grants, will be sufficient to satisfy our current and projected funding requirements through 2020. We expect these funds will allow us to complete our ongoing Phase 2 clinical trials for CRN00808 and our planned Phase 1 clinical trials for CRN01941. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect. Additionally, the process of testing product candidates in clinical trials is costly, and the timing of progress and expenses in these trials is uncertain.

Our future capital requirements will depend on many factors, including:

- the type, number, scope, progress, expansions, results, costs and timing of, our preclinical studies and clinical trials of our product candidates which we are pursuing or may choose to pursue in the future;
- the costs and timing of manufacturing for our product candidates, including commercial manufacturing if any product candidate is approved;
- the costs, timing and outcome of regulatory review of our product candidates;
- the costs of obtaining, maintaining and enforcing our patents and other intellectual property rights;
- our efforts to enhance operational systems and hire additional personnel to satisfy our obligations as a public company, including enhanced internal controls over financial reporting;
- the costs associated with hiring additional personnel and consultants as our preclinical and clinical activities increase;
- the timing and the extent of any Australian Tax Incentive refund and future grant revenues that we receive;
- the costs and timing of establishing or securing sales and marketing capabilities if any product candidate is approved;
- our ability to achieve sufficient market acceptance, adequate coverage and reimbursement from third-party payors and adequate market share and revenue for any approved products;
- the terms and timing of establishing and maintaining collaborations, licenses and other similar arrangements; and
- costs associated with any products or technologies that we may in-license or acquire.

Until such time, if ever, as we can generate substantial product revenues to support our cost structure, we expect to finance our cash needs through equity offerings, debt financings or other capital sources, including potentially collaborations, licenses and other similar arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our stockholders will be or could be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise funds through collaborations, licenses and other similar arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us and/or may reduce the value of our common stock. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market our product candidates even if we would otherwise prefer to develop and market such product candidates ourselves.

**Off-Balance Sheet Arrangements**

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under applicable SEC rules.



### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### ***Interest Rate Risk***

Our cash and cash equivalents consist of cash, money market accounts and short-term debt securities. We are exposed to market risk related to fluctuations in interest rates and market prices. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of United States interest rates. However, because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates would not be expected to have a material impact on our financial condition or results of operations.

#### ***Foreign Currency***

We contract with vendors, CROs and investigational sites in several foreign countries, including countries in Western Europe and the Asia Pacific. We are therefore subject to fluctuations in foreign currency rates in connection with these agreements. We do not hedge our foreign currency exchange rate risk. To date, we have not incurred any material adverse effects from foreign currency changes on these contracts.

In January 2017, we formed a wholly-owned subsidiary in Australia, which exposes us to foreign currency exchange rate risk. The functional currency of CAPL is the United States dollar. Assets and liabilities of our foreign subsidiary that are not denominated in the functional currency are remeasured into U.S. dollars at foreign currency exchange rates in effect at the balance sheet date except for nonmonetary assets and capital accounts, which are remeasured at historical foreign currency exchange rates in effect at the date of transaction. Expenses are generally remeasured at foreign currency exchange rates which approximate average rates in effect during each period. Net realized and unrealized gains and losses from foreign currency transactions and remeasurement are reported in other income (expense), net, in the consolidated statements of operations and totaled approximately \$17,000 and \$12,000 for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, the impact of a theoretical 10% change in the exchange rate of the Australian dollar would not result in a material gain or loss. To date, we have not hedged exposures denominated in foreign currencies

#### ***Inflation Risk***

Inflation generally affects us by increasing our cost of labor and clinical trial costs. We do not believe that inflation has had a material effect on our results of operations for the periods presented.

### **Item 4. Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2019 at the reasonable assurance level.

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### **Item 1. Legal Proceedings**

We are currently not a party to any material legal proceedings. From time to time, we may be involved in legal proceedings or subject to claims incident to the ordinary course of business. Regardless of the outcome, such proceedings or claims can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors set forth in Part II, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### *Unregistered Sales of Equity Securities and Use of Proceeds*

None.

#### *Use of Proceeds*

On July 17, 2018, the SEC declared effective our registration statement on Form S-1 (File No. 333-225824), as amended, filed in connection with our IPO. The IPO closed on July 20, 2018 and we issued and sold 6,900,00 shares of our common stock at a price to the public of \$17.00 per share, which included the exercise in full of the underwriters' option to purchase additional shares. We received gross proceeds from the IPO of \$117.3 million, before deducting underwriting discounts and commissions of approximately \$8.2 million and estimated offering expenses of approximately \$2.6 million. The managing underwriters of the offering were J.P. Morgan Securities LLC, Leerink Partners LLC and Piper Jaffray & Co. No offering expenses were paid or are payable, directly or indirectly, to our directors or officers, to persons owning 10% or more of any class of our equity securities or to any of our affiliates.

As of March 31, 2019, we have not used any of the proceeds from our initial public offering. There has been no material change in the planned use of such proceeds from that described in the Prospectus.

### **Item 3. Defaults upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

**Item 6. Exhibits**

**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	<a href="#">Amended and Restated Certificate of Incorporation</a>	S-1/A	333-225824	3.3	7/9/2018	
3.2	<a href="#">Amended and Restated Bylaws</a>	S-1/A	333-225824	3.4	7/9/2018	
4.1	<a href="#">Specimen Stock Certificate Evidencing the Shares of Common Stock</a>	S-1/A	333-225824	4.1	7/9/2018	
4.2	<a href="#">Amended and Restated Investor Rights Agreement, dated February 9, 2018, as amended, by and among the Registrant and certain of its stockholders</a>	S-1	333-225824	4.2	6/22/2018	
31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</a>					X
31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002</a>					X
32.1*	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant 18, U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002</a>					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

\* The certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q is not deemed filed with the SEC and is not to be incorporated by reference into any filing of Crinetics Pharmaceuticals, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Crinetics Pharmaceuticals, Inc.**

Date: May 13, 2019

By: /s/ R. Scott Struthers, Ph.D.  
R. Scott Struthers, Ph.D.  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 13, 2019

By: /s/ Marc J.S. Wilson  
Marc J.S. Wilson  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, R. Scott Struthers, Ph.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Crinetics Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2019

/s/ R. Scott Struthers, Ph.D.

R. Scott Struthers, Ph.D.  
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marc J.S. Wilson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Crinetics Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2019

/s/ Marc J.S. Wilson  
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Marc J.S. Wilson  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Crinetics Pharmaceuticals, Inc. (the “Company”) hereby certifies, to his knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ R. Scott Struthers, Ph.D.

R. Scott Struthers, Ph.D.

President and Chief Executive Officer

Date: May 13, 2019

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Crinetics Pharmaceuticals, Inc. (the “Company”) hereby certifies, to his knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended March 31, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marc J.S. Wilson

Marc J.S. Wilson

Chief Financial Officer

Date: May 13, 2019