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, 2023

or

☐ **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: 001-38210

Krystal Biotech, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**82-1080209**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

2100 Wharton Street, Suite 701
Pittsburgh, Pennsylvania 15203
(Address of principal executive offices and zip code)

(412) 586-5830
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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	KRYS	NASDAQ Capital Market

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, smaller reporting company, or an emerging growth company. See the 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 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 ☒

As of May 1, 2023, there were 25,799,738 shares of the registrant's common stock issued and outstanding.

Krystal Biotech, Inc.
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ITEM 1. FINANCIAL STATEMENTS

Krystal Biotech, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

(In thousands, except share and per share data)	March 31, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 140,745	$ 161,900
Short-term investments	209,642	217,271
Prepaid expenses and other current assets	5,042	4,608
Total current assets	355,429	383,779
Property and equipment, net	163,073	161,684
Long-term investments	5,129	4,621
Right-of-use assets	7,814	8,042
Other non-current assets	402	324
Total assets	$ 531,847	$ 558,450
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 4,109	$ 3,981
Current portion of lease liability	1,553	1,561
Accrued expenses and other current liabilities	29,414	23,305
Total current liabilities	35,076	28,847
Lease liability	7,205	7,372
Total liabilities	42,281	36,219
Commitments and contingencies (Note 6)		
Stockholders' equity		
Common stock; $0.00001 par value; 80,000,000 shares authorized at March 31, 2023 and December 31, 2022; 25,796,213 shares issued and outstanding at March 31, 2023; and 25,763,743 shares issued and outstanding at December 31, 2022	—	—
Additional paid-in capital	815,776	803,718
Accumulated other comprehensive loss	(154)	(728)
Accumulated deficit	(326,056)	(280,759)
Total stockholders' equity	489,566	522,231
Total liabilities and stockholders' equity	$ 531,847	$ 558,450

The accompanying notes are an integral part of these condensed consolidated financial statements.

Krystal Biotech, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(unaudited)

(In thousands, except share and per share data)	Three Months Ended March 31, 2023	2022
Expenses		
Research and development	$ 12,288	$ 9,314
General and administrative	24,035	15,908
Litigation settlement	12,500	25,000
Total operating expenses	48,823	50,222
Loss from operations	(48,823)	(50,222)
Other Income		
Interest and other income, net	3,526	257
Net loss	$ (45,297)	$ (49,965)
Unrealized gain (loss) on available-for-sale securities and currency translation adjustment	574	(1,034)
Comprehensive loss	$ (44,723)	$ (50,999)
Net loss per common share: Basic and diluted	$ (1.76)	$ (1.99)
Weighted-average common shares outstanding: Basic and diluted	25,712,220	25,114,453

The accompanying notes are an integral part of these condensed consolidated financial statements.

Krystal Biotech, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(unaudited)

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balances at January 1, 2023	25,763,743	$ —	$ 803,718	$ (728)	$ (280,759)	$ 522,231
Issuance of common stock, net	42,021	—	2,208	—	—	2,208
Shares surrendered for taxes	(9,551)	—	(749)		—	(749)
Stock-based compensation expense	—	—	10,599	—	—	10,599
Unrealized gain on investments and other	—	—	—	574	—	574
Net loss	—	—	—	—	(45,297)	(45,297)
Balances at March 31, 2023	25,796,213	$ —	$ 815,776	$ (154)	$ (326,056)	$ 489,566

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balances at January 1, 2022	25,207,985	$ —	$ 734,523	$ (163)	$ (140,784)	$ 593,576
Issuance of common stock, net	1,475	—	55	—	—	55
Shares surrendered for taxes and forfeitures	(10,379)	—	(649)		—	(649)
Stock-based compensation expense	—	—	6,571	—	—	6,571
Unrealized (loss) on investments and other	—	—	—	(1,034)	—	(1,034)
Net loss	—	—	—	—	(49,965)	(49,965)
Balances at March 31, 2022	25,199,081	$ —	$ 740,500	$ (1,197)	$ (190,749)	$ 548,554

The accompanying notes are an integral part of these condensed consolidated financial statements.

Krystal Biotech, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

(In thousands)	Three Months Ended March 31, 2023	2022
Operating Activities		
Net loss	$ (45,297)	$ (49,965)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	705	1,015
Stock-based compensation expense	10,437	6,430
Other, net	(605)	(135)
Changes in operating assets and liabilities		
Prepaid expenses and other current assets	(327)	820
Other non-current assets	(46)	9
Lease liability	(165)	(126)
Accounts payable	107	(554)
Accrued expenses and other current liabilities	(3,465)	2,013
Accrued litigation settlement	12,500	25,000
Net cash (used in) operating activities	(26,156)	(15,493)
Investing Activities		
Purchases of property and equipment	(5,381)	(17,191)
Purchases of investments	(145,576)	(62,754)
Proceeds from maturities of investments	154,520	24,037
Net cash provided by (used in) investing activities	3,563	(55,908)
Financing Activities		
Issuance of common stock, net	2,223	107
Taxes paid related to settlement of restricted stock awards	(749)	(649)
Net cash provided by (used in) financing activities	1,474	(542)
Effect of exchange rate changes on cash and cash equivalents	(36)	—
Net (decrease) in cash and cash equivalents	(21,155)	(71,943)
Cash and cash equivalents at beginning of period	161,900	341,246
Cash and cash equivalents at end of period	$ 140,745	$ 269,303
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Unpaid purchases of property and equipment included in accounts payable and accrued expenses	$ 11,865	$ 14,507
Initial recognition of right-of-use assets	$ —	$ 1,394

The accompanying notes are an integral part of these condensed consolidated financial statements.

Krystal Biotech, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Organization

Krystal Biotech, Inc. (the "Company," or "we" or other similar pronouns) commenced operations in April 2016. In March 2017, the Company converted from a California limited liability company to a Delaware C-corporation, and changed its name from Krystal Biotech LLC to Krystal Biotech, Inc. In June 2018, the Company incorporated a wholly-owned subsidiary in Australia for the purpose of undertaking preclinical and clinical studies in Australia. In April 2019, the Company incorporated Jeune Aesthetics Inc ("Jeune Aesthetics"), in Delaware, a wholly-owned subsidiary, for the purpose of undertaking preclinical and clinical studies for aesthetic skin conditions. In January 2022, August 2022, and December 2022, the Company incorporated wholly-owned subsidiaries in Switzerland, Netherlands, and France, respectively, for the purpose of establishing initial operations in Europe for the development and commercialization of Krystal's product pipeline.

We are a biotechnology company focused on developing and commercializing genetic medicines for patients with rare diseases. Using our patented platform that is based on engineered HSV-1, we create vectors that efficiently deliver therapeutic transgenes to cells of interest in multiple organ systems. The cell's own machinery then transcribes and translates the encoded effector to treat or prevent disease. We formulate our vectors for non-invasive or minimally invasive routes of administration at a healthcare professional's office or potentially in the patient's home by a healthcare professional. Our goal is to develop easy-to-use medicines to dramatically improve the lives of patients living with rare diseases and chronic conditions. Our innovative technology platform is supported by in-house, commercial scale Current Good Manufacturing Practices ("CGMP") manufacturing capabilities.

Liquidity

As of March 31, 2023, the Company had an accumulated deficit of $326.1 million. As the Company continues to incur losses, a transition to profitability is dependent upon the successful development, approval and commercialization of its product candidates and the achievement of a level of revenues adequate to support the Company's cost structure. The Company may never achieve profitability and unless and until it does, the Company will continue to need to raise additional capital or obtain financing from other sources. Management intends to fund future operations through its on hand cash and cash equivalents, the sale of equity, debt financings, and may also seek additional capital through arrangements with strategic partners or other sources. There can be no assurance that additional funding will be available on terms acceptable to the Company, if at all.

The Company is subject to risks common to companies in the biotechnology industry, including but not limited to the failure of product candidates in clinical and preclinical studies, the development of competing product candidates or other technological innovations by competitors, dependence on key personnel, protection of proprietary technology, compliance with government regulations and the ability to commercialize product candidates. The Company expects to incur significant costs to expand its commercialization capabilities in advance of the potential global regulatory approvals of its lead product, beremagene geperpavec ("B-VEC"). The Company believes that its cash, cash equivalents and short-term investments of approximately $350.4 million as of March 31, 2023 will be sufficient to allow the Company to fund its planned operations for at least the next 12 months from the date of this Quarterly Report on Form 10-Q.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP"). In the opinion of management, all adjustments, which consist of all normal recurring adjustments necessary for a fair presentation of the Company's financial position and results of operations for the interim periods presented, are reflected in the interim condensed consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the U.S. Securities and Exchange Commission ("SEC") on February 27, 2023.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates. Management considers many factors in developing the estimates and assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that falls within that range of reasonable estimates. Estimates are used in the following areas: stock-based compensation expense, accrued expenses, the fair value of financial instruments, the incremental borrowing rate for lease liabilities, and the valuation allowance included in the deferred income tax calculation.

Segment and Geographical Information

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company and the Company's chief operating decision maker view the Company's operations and manage its business in one operating segment, which is the business of developing and commercializing pharmaceutical products.

Concentrations of Credit Risk and Off-Balance Sheet Risk

Financial instruments that potentially subject the Company to credit risk consist of cash, cash equivalents and investments. The Company's policy is to invest its cash, cash equivalents and investments in money market funds, corporate bonds, commercial paper, government agency securities and various other bank deposit accounts. The counterparties to the agreements relating to the Company's investments consist of financial institutions of high credit standing. The Company is exposed to credit risk in the event of default by the financial institutions to the extent amounts recorded on the condensed consolidated balance sheets are in excess of insured limits. The Company has not experienced any credit losses in such accounts and does not believe it is exposed to any significant credit risk on these funds. The Company has no financial instruments with off-balance sheet risk of loss.

Cash, Cash Equivalents and Investments

Cash and cash equivalents consist of money market funds and bank deposits. Cash equivalents are defined as short-term, highly liquid investments with original maturities of 90 days or less at the date of purchase.

Investments with maturities of less than one year are classified as short-term investments on the condensed consolidated balance sheets and consist of commercial paper, corporate bonds, and government agency securities. Investments with maturities of greater than one year are classified as long-term investments on the condensed consolidated balance sheets and consist of corporate bonds and government agency securities. Accrued interest on investments is also classified as short-term investments on the condensed consolidated balance sheets.

As our entire investment portfolio is considered available for use in current operations, we classify all investments as available-for-sale securities. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported in accumulated other comprehensive loss, which is a separate component of stockholders' equity in the condensed consolidated balance sheets. Any premium arising at purchase is amortized to the earliest call date and any discount arising at purchase is accreted to maturity. Amortization and accretion of premiums and discounts are recorded in interest and other income, net, in the consolidated statements of operations.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a three-level hierarchy that prioritizes the inputs used in determining fair value by their reliability and preferred use, as follows:

- *Level 1*— Valuations based on quoted prices in active markets for identical assets or liabilities.
- *Level 2*— Valuations based on quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

- *Level 3*— Valuations based on inputs that are both significant to the fair value measurement and unobservable.

To the extent that a valuation is based on models or inputs that are less observable, or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized within Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

There have been no significant changes to the valuation methods utilized by the Company during the periods presented. There have been no transfers between Level 1, Level 2, and Level 3 in any periods presented.

The carrying amounts of financial instruments consisting of cash and cash equivalents, investments, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities included in the Company's condensed consolidated financial statements, approximate fair value, primarily due to their short maturities.

Our available-for-sale, short-term and long-term investments, which consist of commercial paper, corporate bonds, and U.S. government agency securities are considered to be Level 2 financial instruments. The fair value of Level 2 financial assets is determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data, such as pricing for similar securities, recently executed transactions, cash flow models with yield curves, and benchmark securities. In addition, Level 2 financial instruments are valued using comparisons to like-kind financial instruments and models that use readily observable market data as their basis.

Property and Equipment, net

Property and equipment, net, is stated at cost, less accumulated depreciation. Maintenance and repairs that do not improve or extend the lives of the respective assets are expensed to operations as incurred, while costs of major additions and betterments are capitalized. Upon disposal, the related cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is included in the results of operations. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, which are as follows:

Buildings and building improvements	7 - 47 years
Computer equipment and software	3 - 7 years
Manufacturing equipment	3 - 20 years
Laboratory equipment	3 - 10 years
Furniture and fixtures	3 - 7 years
Leasehold improvements	lesser of useful life or remaining life of lease

The Company reviews the estimated useful lives of its property and equipment on a continuing basis. In evaluating the useful lives, the Company considers how long assets will remain functionally effective, whether the technology continues to be relevant and considers other competitive and economic factors. If the assessment indicates that the assets will be used for a shorter or longer period than previously anticipated, the useful life of the assets is adjusted, resulting in a change in estimate. Changes in estimates are accounted for on a prospective basis by depreciating the current carrying values of the assets over their revised remaining useful lives.

Construction in progress is not depreciated until the asset is placed in service.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for potential impairment when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. We review the recoverability of the net book value of long-lived assets whenever events and circumstances indicate ("triggering events") that the net book value of an asset may not be recoverable from the estimated undiscounted future cash flows expected to result from its use and eventual disposition. In cases where a triggering event occurs and undiscounted expected future cash flows are less than the net book value, we recognize an impairment loss equal to an amount by which the net book value exceeds the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The Company has not identified any triggering events or recognized any impairment losses for the three months ended March 31, 2023 and 2022, respectively.

Leases

The Company accounts for its lease agreements in accordance with FASB ASC Topic 842, *Leases*. Right-of-use lease assets represent the right to use an underlying asset during the lease term and the lease liabilities represent the commitment to make lease payments arising from the lease. Right-of-use lease assets and obligations are recognized based on the present value of remaining lease payments over the lease term. As the Company's existing lease agreements do not provide an implicit rate and as the Company does not have any external borrowings, the Company has used an estimated incremental borrowing rate based on the information available at lease commencement in determining the present value of lease payments. Operating lease expense is recognized on a straight-line basis over the lease term. Variable lease expense is recognized in the period in which the obligation for the payment is incurred. In addition, the Company also has made an accounting policy election to exclude leases with an initial term of twelve months or less from its condensed consolidated balance sheets and to account for lease and non-lease components of its operating leases as a single component.

For lease arrangements where it has been determined that the Company has control over an asset that is under construction and is thus considered the accounting owner of the asset during the construction period, the Company records a construction in progress asset and corresponding financial obligation on the condensed consolidated balance sheet. Once the construction is complete, an assessment is performed to determine whether the lease meets certain sale-leaseback criteria. If the sale-leaseback criteria are determined to be met, the Company will remove the asset and related financial obligation from the condensed consolidated balance sheet and treat the lease as either an operating or finance lease based on an assessment of the guidance. If, upon completion of construction, the project does not meet the "sale-leaseback" criteria, the lease will be treated as a financing obligation and the Company will depreciate the asset over its estimated useful life for financial reporting purposes once the asset has been placed into service.

Research and Development Expenses

Research and development costs are charged to expense as incurred in performing research and development activities. These costs include employee compensation costs, facilities and overhead, preclinical and clinical activities, clinical manufacturing costs, contract management services, regulatory and other related costs.

The Company estimates contract research and manufacturing expenses based on the services performed pursuant to contracts with research organizations and manufacturing organizations that manufacture materials used in the Company's ongoing preclinical and clinical studies. Non-refundable advanced payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts are expensed as the related goods are delivered or the services are performed.

In accruing service fees, the Company estimates the time period over which services will be performed and the level of effort to be expended in each period. These estimates are based on communications with third-party service providers and the Company's estimates of accrued expenses using information available at each balance sheet date. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company will adjust the accrual accordingly.

Stock-Based Compensation Expense

The Company applies the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification, or ASC, Topic 718, *Compensation—Stock Compensation* ("ASC 718"), to account for stock-based compensation. Compensation costs related to equity awards granted are based on the estimated fair value of the awards on the date of grant.

ASC 718 requires all stock-based payments, including grants of stock options and restricted stock, to be recognized in the consolidated statements of operations based on their grant-date fair values. Compensation expense for stock options, restricted stock awards, and restricted stock units is recognized on a straight-line basis based on the grant-date fair value over the associated service period of the award, which is generally the vesting term. Compensation expense for performance-based restricted stock units is recognized for the awards that are probable of vesting over the service period of the award. On a quarterly basis, management estimates the probable number of performance-based restricted stock units that would vest until such time that the ultimate achievement of the performance criteria are known.

The Company estimates the fair value of its stock options using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including: (i) the expected stock price volatility; (ii) the expected term of the award; (iii) the risk-free interest rate; and (iv) expected dividends.

The Company estimates stock price volatility by using its own historical data. The expected term of the Company's stock options is estimated using the "simplified" method, whereby the expected term equals the arithmetic mean of the vesting term and the original contractual term of the option. The risk-free interest rates are based on U.S. Treasury securities with a maturity date commensurate with the expected term of the associated award. The Company has never paid and does not expect

to pay dividends in the foreseeable future. The Company accounts for forfeitures as they occur. Stock-based compensation expense recognized in the financial statements is based on awards for which service conditions are expected to be satisfied.

Comprehensive Loss

Comprehensive loss is defined as the change in equity during a period from transactions from non-owner sources. Unrealized gains or losses on available-for-sale securities is a component of other comprehensive gains or losses and is presented net of taxes. We record reclassifications from other comprehensive gains or losses to interest and other income, net on the condensed consolidated statements of operations related to realized gains on sales of available-for-sale securities.

The Company reviews its securities quarterly to determine whether an other-than-temporary impairment has occurred. The Company determined that there were no other-than-temporary impairments during the three months ended March 31, 2023 and 2022.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB that the Company adopts as of the specified effective date. There were no recently adopted accounting pronouncements that had a material impact on the Company's condensed consolidated financial statements, and no recently issued accounting pronouncements that are expected to have a material impact on the Company's condensed consolidated financial statements.

3. Net Loss Per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is calculated by dividing net loss attributable to common stockholders by the weighted average shares outstanding during the period, without consideration for common stock equivalents. Diluted net loss per share attributable to common stockholders is computed by dividing the net loss by the weighted-average number of shares of common stock and common share equivalents outstanding for the period. Common share equivalents consist of common stock issuable upon exercise of stock options and vesting of restricted stock awards. There were 3,829,535 and 3,226,962 common share equivalents outstanding as of March 31, 2023 and 2022, respectively, in the form of stock options and unvested restricted stock awards, that have been excluded from the calculation of diluted net loss per common share as their effect would be anti-dilutive for all periods presented.

	Three Months Ended March 31,	
(In thousands, except share and per share data)	**2023**	**2022**
Numerator:		
Net loss	$ (45,297)	$ (49,965)
Denominator:		
Weighted-average basic and diluted common shares	25,712,220	25,114,453
Basic and diluted net loss per common share	$ (1.76)	$ (1.99)

4. Fair Value Instruments

The following tables show the Company's cash, cash equivalents and available-for-sale securities by significant investment category as of March 31, 2023 and December 31, 2022, respectively (in thousands):

	March 31, 2023						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value	Cash and Cash Equivalents	Short-term Marketable Securities [1]	Long-term Marketable Securities [2]
Level 1:							
Cash and cash equivalents	$ 140,745	$ —	$ —	$ 140,745	$ 140,745	$ —	$ —
Subtotal	140,745	—	—	140,745	140,745	—	—
Level 2:							
Commercial paper	97,442	7	(18)	97,431	—	97,431	—
Corporate bonds	49,573	39	(106)	49,506	—	45,344	4,162
U.S. government agency securities	67,803	221	(190)	67,834	—	66,867	967
Subtotal	214,818	267	(314)	214,771	—	209,642	5,129
Total	$ 355,563	$ 267	$ (314)	$ 355,516	$ 140,745	$ 209,642	$ 5,129

	December 31, 2022						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value	Cash and Cash Equivalents	Short-term Marketable Securities [1]	Long-term Marketable Securities [2]
Level 1:							
Cash and cash equivalents	$ 161,900	$ —	$ —	$ 161,900	$ 161,900	$ —	$ —
Subtotal	161,900	—	—	161,900	161,900	—	—
Level 2:							
Commercial paper	63,624	5	(23)	63,606	—	63,606	—
Corporate bonds	82,241	13	(419)	81,835	—	77,214	4,621
U.S. government agency securities	76,683	161	(393)	76,451	—	76,451	—
Subtotal	222,548	179	(835)	221,892	—	217,271	4,621
Total	$ 384,448	$ 179	$ (835)	$ 383,792	$ 161,900	$ 217,271	$ 4,621

(1) The Company's short-term marketable securities mature in one year or less.
(2) The Company's long-term marketable securities mature between one year and two years.

See Note 2 to these unaudited condensed consolidated financial statements for additional discussion regarding the Company's fair value measurements.

5. Balance Sheet Components

Property and Equipment, Net

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

	March 31, 2023	December 31, 2022
Construction in progress	$ 122,935	$ 131,331
Leasehold improvements	24,442	24,217
Manufacturing equipment	10,236	9,783
Building and building improvements	9,736	—
Laboratory equipment	2,108	2,089
Furniture and fixtures	1,164	957
Computer equipment and software	338	100
Total property and equipment	170,959	168,477
Accumulated depreciation	(7,886)	(6,793)
Property and equipment, net	$ 163,073	$ 161,684

Depreciation expense was $1.1 million and $462 thousand for the three months ended March 31, 2023 and 2022, respectively.

The Company placed a portion of its second commercial scale CGMP facility, ASTRA, into service during the three months ended March 31, 2023 as it was determined that certain assets were ready for their intended use. On March 27, 2023, the Company received the permanent occupancy permit for ASTRA which allowed the Company to begin utilizing certain portions of the building. As a result, assets relating to ASTRA were reclassified from construction in progress to leasehold improvements, manufacturing equipment, buildings and building improvements, furniture and fixtures, or computer equipment and software as of March 31, 2023. As certain building improvements are not yet complete and certain qualification activities are still underway, the Company will continue to hold the remaining assets within construction in progress until validation has been completed and the assets are ready for their intended use. Validation of the facility is expected to be completed in 2023.

Accrued Expenses and Other Current Liabilities

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

	March 31, 2023	December 31, 2022
Accrued litigation settlement	$ 12,500	$ —
Accrued construction in progress	8,407	11,452
Accrued professional fees	3,839	3,397
Accrued payroll and benefits	2,661	6,781
Accrued preclinical and clinical expenses	1,635	1,365
Other current liabilities	321	267
Accrued taxes	51	43
Total	$ 29,414	$ 23,305

6. Commitments and Contingencies

Agreements with Contract Research Organizations and Contract Manufacturing Organizations

The Company enters into various agreements in the normal course of business with Contract Research Organizations ("CROs"), Contract Manufacturing Organizations ("CMOs") and other third parties for preclinical research studies, clinical trials and testing and manufacturing services. The agreements with CMOs primarily relate to the manufacturing of our cell and virus banks and for the manufacturing of our sterile gel that is mixed with in-house produced vectors as part of the final drug product for B-VEC. Agreements with third parties may also include research and development consulting activities, clinical-

trial agreements, storage, packaging, labeling, and/or testing of our preclinical and clinical-stage or pre-commercial products. The Company is obligated to make milestone payments under certain of these contracts. The Company may also be responsible for the payment of a monthly service fee for project management services for the duration of any agreements. The estimated remaining commitment as of March 31, 2023 under these agreements is approximately $2.0 million. The Company has incurred research and development expenses under these agreements of $2.0 million and $1.8 million for the three months ended March 31, 2023 and 2022, respectively.

ASTRA Contractual Obligations

The Company has contracted with various third parties to complete the interior build-out of our second CGMP facility, ASTRA. These contracts typically call for the payment of fees for services or materials upon the achievement of certain milestones. The estimated remaining commitment as of March 31, 2023 is $11.9 million and primarily relates to the remaining building improvements and certain qualification activities of the facility. The Company has included costs incurred to-date associated with the ongoing build-out of ASTRA within construction in progress.

As of March 31, 2023, Substantial Completion, as defined in the Standard Form of Contract for Construction and the corresponding General Conditions of the Contract for Construction (the "Agreement") with Whiting-Turner Contracting Company ("Whiting-Turner"), the construction manager for ASTRA, had not been achieved. Whiting-Turner's work under the Agreement represents a portion of the work necessary to complete construction of the ASTRA facility and, therefore the date of Substantial Completion of Whiting-Turner's work under the Agreement may not equate to the date of completion of ASTRA.

Legal Proceedings

In May 2020, a complaint was filed against the Company in the United States District Court for the Western District of Pennsylvania by PeriphaGen, Inc. ("PeriphaGen"), which also named our Chief Executive Officer and President, R&D, Krish Krishnan and Suma Krishnan, respectively. The complaint alleged breach of contract and misappropriation of trade secrets, which secrets the plaintiff asserted were used to develop our product candidates, including the vector backbones, and our STAR-D platform. The Company answered the complaint on June 26, 2020 by denying the allegations and brought a counterclaim asking the court to declare that the Company did not misappropriate PeriphaGen's trade secrets or confidential information, and to further declare that the Company is the rightful and sole owner of our product candidates and STAR-D platform. In addition, the Company filed a third-party complaint against two principals of PeriphaGen, James Wechuck and David Krisky, alleging breach of contract and seeking contribution and indemnification from them in the event PeriphaGen is awarded damages.

On March 9, 2022, the court officially ordered the parties to attend mediation on March 11, 2022. During the course of the mediation process, the parties were able to exchange information, allowing the parties to value their positions. On March 12, 2022, the Company entered into a binding term sheet to settle the dispute. On April 27, 2022, the Company entered into a final settlement agreement and paid PeriphaGen an upfront payment of $25.0 million on April 28, 2022 for: (i) the release of all claims in the trade secret litigation with PeriphaGen; (ii) the acquisition of certain PeriphaGen assets, and (iii) the grant of a license by PeriphaGen for dermatological applications. Upon approval of the Company's first product by the U.S. Food and Drug Administration, the Company will pay PeriphaGen an additional $12.5 million, followed by three additional $12.5 million contingent milestone payments upon reaching $100.0 million in total cumulative sales, $200.0 million in total cumulative sales and $300.0 million in total cumulative sales. As defined in the settlement agreement, cumulative sales shall include all revenue from sales of the Company products by the Company and its affiliates and licensees, as reported by the Company in its annual Form 10-K filings. If all milestones are achieved, the total consideration for settling the dispute, acquiring certain assets, and granting of a license from PeriphaGen will be $75.0 million.

The Company recorded the upfront settlement payment of $25.0 million under litigation settlement expense on the condensed consolidated statements of operations for the three months ended March 31, 2022. In accordance with ASC Topic 450, *Contingencies*, the Company has determined that FDA approval of B-VEC is now probable, and accordingly has accrued for an additional $12.5 million litigation settlement liability as of March 31, 2023. The remaining contingent milestone payments were not deemed probable due to uncertainty in the achievement of these milestones as of March 31, 2023, and therefore no additional accrual has been recorded.

The Company has received $0 and $768 thousand of insurance proceeds during the three months ended March 31, 2023 and 2022, respectively. The reimbursements have been recorded as an offset to our legal fees included in general and administrative expenses on the condensed consolidated statements of operations and within operating activities on the condensed consolidated statements of cash flows.

7. Leases

As of March 31, 2023, future minimum commitments under the Company's operating leases with lease terms in excess of 12 months were as follows (in thousands):

	Operating Leases
2023 (remaining nine months)	$ 1,240
2024	1,539
2025	1,277
2026	1,277
2027	1,300
Thereafter	10,762
Future minimum operating lease payments	$ 17,395
Less: Interest	8,637
Present value of lease liability	$ 8,758

Supplemental condensed consolidated balance sheet information related to leases is as follows:

	March 31, 2023	December 31, 2022
Operating leases:		
Right-of-use assets	$ 7,814	$ 8,042
Current portion of lease liability	1,553	1,561
Lease liability	7,205	7,372
Total lease liability	$ 8,758	$ 8,933
Weighted average remaining lease term, in years	12.4	12.5
Weighted average discount rate	9.4 %	9.4 %

The components of the Company's lease expense are as follows:

	Three Months Ended March 31,	
	2023	2022
Lease cost:		
Operating lease expense	$ 463	$ 409
Variable lease expense	59	49
Total lease expense	$ 522	$ 458

8. Capitalization

ATM Program

The Company sold shares of common stock from time to time pursuant to its previously executed sales agreement (the "Sales Agreement") with Cowen and Company, LLC ("Cowen") with respect to an at-the-market equity offering program ("ATM Program") finalized on December 31, 2020, under which Cowen acted as the Company's agent and/or principal and could issue and sell from time to time, during the term of the Sales Agreement, shares of common stock having an aggregate offering price up to $150.0 million ("Placement Shares"). The issuance and sale of the Placement Shares by the Company under the Sales Agreement were made pursuant to the Company's effective "shelf" registration statement on Form S-3. There were no shares issued under the ATM Program during the three months ended March 31, 2023 and 2022. As of March 31, 2023, there was a remaining $102.5 million available for issuance under the ATM Program. The ATM Program expired on May 4, 2023.

9. Stock-Based Compensation

In 2017, the Company adopted the 2017 IPO Stock Plan (the "Plan"), which governs the issuance of stock options and restricted stock to employees, certain non-employee consultants, and directors. Initially, the Company reserved 900 thousand shares for issuance under the Plan with an initial sublimit for incentive stock options of 900 thousand shares. On an annual basis, the amount of shares available for issuance under the Plan increases by an amount equal to four percent of the total outstanding shares as of the last day of the preceding calendar year. The sublimit of incentive stock options is not subject to the increase. The Company has historically granted stock options and restricted stock awards to its employees. In February 2023, the Company began issuing restricted stock units and performance-based restricted stock units to certain employees.

Stock Options

Options granted to employees and non-employees vest ratably over a four-year period and stock options granted to directors of the Company vest ratably over one-year to three-year periods. Stock options have a life of ten years.

The Company granted 287,600 and 1,179,500 stock options to employees, non-employees, and directors of the Company during the three months ended March 31, 2023 and 2022, respectively.

The following table summarizes the Company's stock option activity:

	Stock Options Outstanding	Weighted-average Exercise Price	Weighted-average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands) [1]
Outstanding at December 31, 2022	3,582,181	$ 61.15	8.7	$ 64,880
Granted	287,600	$ 81.83		
Exercised	(42,021)	$ 53.54		
Cancelled or forfeited	(42,625)	$ 65.59		
Expired	—	$ —		
Outstanding at March 31, 2023	3,785,135	$ 62.75	8.5	$ 66,066
Exercisable at March 31, 2023	961,428	$ 55.08	7.6	$ 24,033

(1) Aggregate intrinsic value represents the difference between the closing stock price of our common stock on March 31, 2023 and the exercise price of outstanding in-the-money options.

The total intrinsic value (the amount by which the fair market value exceeds the exercise price) of stock options exercised during the three months ended March 31, 2023 and 2022 was $1.1 million and $36 thousand, respectively

The weighted-average grant-date fair value per share of options granted to employees, non-employees, and directors during the three months ended March 31, 2023 and 2022 was $56.86 and $43.09, respectively.

There was $109.2 million of unrecognized stock-based compensation expense related to employees', non-employees', and directors' option awards that is expected to be recognized over a weighted-average period of 2.8 years as of March 31, 2023.

The Company has recorded stock-based compensation expense related to the issuance of stock option awards in the condensed consolidated statements of operations for the three months ended March 31, 2023 and 2022 as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Research and development	$ 2,353	$ 1,368
General and administrative	7,108	4,582
Total stock-based compensation	$ 9,461	$ 5,950

The fair value of options was estimated at the date of grant using the Black-Scholes valuation model with the following weighted-average assumptions for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
Expected stock price volatility	75 %	78 %
Expected term of the award (years)	6.2	6.2
Risk-free interest rate	4.06 %	1.79 %
Weighted average exercise price	$ 81.83	$ 62.53
Forfeiture rate	— %	— %
Dividend yield	— %	— %

Restricted Stock Awards

Restricted stock awards ("RSAs") granted to employees vest ratably over a four-year period. The Company granted zero RSAs to employees of the Company during each of the three months ended March 31, 2023 and March 31, 2022.

	Number of Shares	Weighted Averag Grant Date Fair Value
Non-vested RSAs as of December 31, 2022	66,600	$ 7
Granted	—	$
Vested	(12,649)	$ 7
Surrendered for taxes	(9,551)	$ 7
Non-vested RSAs as of March 31, 2023	$ 44,400	$ 7

There was $3.3 million of unrecognized stock-based compensation expense related to employees' RSAs that is expected to be recognized over a weighted-average period of 1.9 years as of March 31, 2023.

The Company recorded stock-based compensation expense related to RSAs in the condensed consolidated statement of operations for the three months ended March 31, 2023 and 2022 as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
General and administrative	$ 432	$
Total stock-based compensation	$ 432	$

Restricted Stock Units

Restricted stock units ("RSUs") granted to employees vest ratably over a four-year period. The Company granted 186,900 and zero RSUs to employees of the Company during the three months ended March 31, 2023, and 2022, respectively.

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested RSUs as of December 31, 2022	—	
Granted	186,900	$ 81.91
Vested	—	
Surrendered or forfeited	—	
Non-vested RSUs as of March 31, 2023	186,900	$ 81.91

There was $15.0 million of unrecognized stock-based compensation expense related to employees' RSU awards that is expected to be recognized over a weighted-average period of 3.9 years as of March 31, 2023.

The Company recorded stock-based compensation expense related to RSUs in the condensed consolidated statement of operations for the three months ended March 31, 2023 and 2022 as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Research and Development	$ 143	$
General and administrative	186	
Total stock-based compensation	$ 329	$

Performance-Based Restricted Stock Units

Performance-based restricted stock units ("PSUs") granted to employees vest ratably over two years based upon continued service through the vesting date and the achievement of specific regulatory and commercial performance criteria as determined by the Compensation Committee of the Company's Board of Directors. The performance criteria are to be completed by the end of the year in which the PSU awards were granted. Each PSU represents the right to receive one share of the Company's common stock upon vesting. The Company recognizes stock-based compensation expense for the fair value of the PSU awards relating to the portion of the awards that are probable of vesting over the service period. On a quarterly basis, management estimates the probable number of PSU's that would vest until such time that the ultimate achievement of the performance criteria are known.

As of March 31, 2023, the Company estimates that 100% of the PSUs granted will be eligible to vest.

The Company granted 60,000 and zero PSUs to employees of the Company during the three months ended March 31, 2023 and 2022, respectively.

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested PSUs as of December 31, 2022	—	
Granted	60,000	$ 81.91
Vested	—	
Surrendered or forfeited	—	
Non-vested PSUs as of March 31, 2023	60,000	$ 81.91

There was $4.7 million of unrecognized stock-based compensation expense related to employees' PSU awards that is expected to be recognized over a weighted-average period of 1.9 years as of March 31, 2023.

The Company recorded stock-based compensation expense related to PSUs in the condensed consolidated statement of operations for the three months ended March 31, 2023 and 2022 as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
General and administrative	$ 215	$
Total stock-based compensation	$ 215	$

Shares remaining available for grant under the Company's stock incentive plan were 1,005,626, with a sublimit for incentive stock options of 2,629, at March 31, 2023.

We capitalize the portion of stock-based compensation that relates to work performed on the construction of manufacturing facilities. There was $162 thousand and $141 thousand of stock-based compensation that was capitalized in the three months ended March 31, 2023 and 2022, respectively.

10. Subsequent Events

The Company evaluates events or transactions that occur after the balance sheet date, but prior to the issuance of the financial statements, to identify matters that require recognition or disclosure. The Company concluded that no subsequent events have occurred that would require recognition or disclosure in the condensed consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the unaudited condensed consolidated financial statements and related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and with the audited financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the SEC on February 27, 2023.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms. These statements relate to future events or to our future operating or financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Some of such factors include, but are not limited to:

- the initiation, timing, cost, progress and results, of our research and development activities, preclinical studies and clinical trials for B-VEC (previously "KB103" and now known as Vyjuvek™) and our other product candidates;
- the timing, scope or results of regulatory filings and approvals, including timing of final U.S. Food and Drug Administration ("FDA") and other regulatory approval of our product candidates;
- our ability to achieve certain accelerated or orphan drug designations from the FDA;
- changes in our estimates regarding the potential market opportunity for B-VEC and our other product candidates;
- our ability to raise capital to fund our operations;
- increases in costs associated with our research and development programs for our product candidates;
- our general and administrative expenses;
- risks related to our ability to successfully develop and commercialize our product candidates;
- our ability to identify and develop new product candidates;
- our ability to identify, recruit and retain key personnel;
- risks related to our marketing and manufacturing capabilities and strategy;
- our business model and strategic plans for our business, product candidates and technology;
- the cost of building a medical affairs and commercial organization, including a sales force in anticipation of commercialization of any of our product candidates;
- the rate and degree of market acceptance and clinical utility of our product candidates and gene therapy, in general;
- our competitive position and the success of competing therapies;
- our intellectual property position and our ability to protect and enforce our intellectual property;
- our financial performance;
- our ability to establish and maintain collaborations;
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing;
- our ability to successfully avoid or resolve any litigation, intellectual property or other claims, that may be brought against us;
- global economic conditions, including the recent rise in inflation and interest rates and recent bank failures; and
- the impact of changes in laws and regulations.

Forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and in other filings we

make with the SEC from time to time. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Quarterly Report. You should read this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

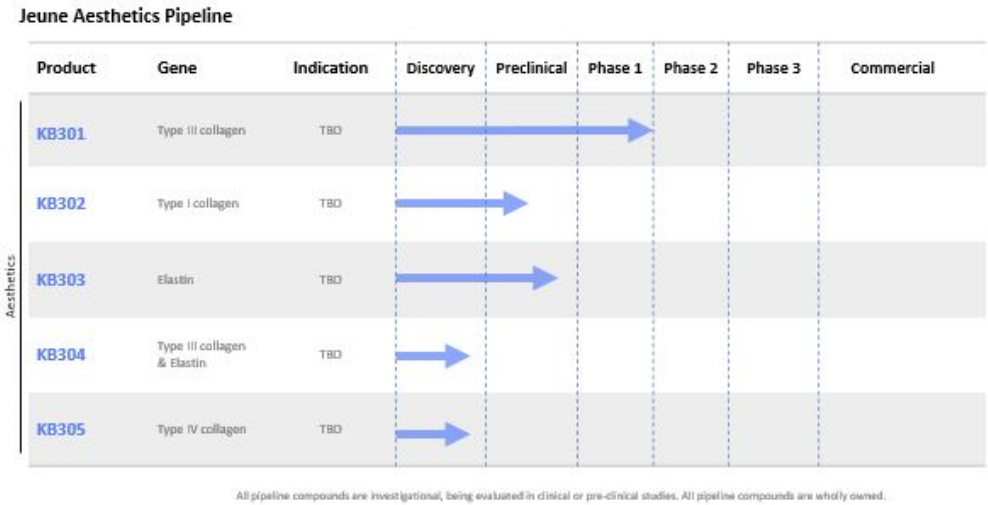
Throughout this Form 10-Q, unless the context requires otherwise, all references to "Krystal," "the Company," we," "our," "us" or similar terms refer to Krystal Biotech, Inc., together with its consolidated subsidiaries. Web links throughout this document are provided for convenience only and are not intended to be active hyperlinks to the referenced websites. No content on the referenced websites shall be deemed incorporated by reference into this Quarterly Report on Form 10-Q.

Overview

We are a biotechnology company focused on developing and commercializing genetic medicines for patients with rare diseases. Using our patented platform that is based on engineered HSV-1, we create vectors that efficiently deliver therapeutic transgenes to cells of interest in multiple organ systems. The cell's own machinery then transcribes and translates the encoded effector to treat or prevent disease. We formulate our vectors for non-invasive or minimally invasive routes of administration at a healthcare professional's office or potentially in the patient's home by a healthcare professional. Our goal is to develop easy-to-use medicines to dramatically improve the lives of patients living with rare diseases and chronic conditions. Our innovative technology platform is supported by in-house, commercial scale CGMP manufacturing capabilities.

Our Product Candidates

The following table summarizes information regarding our product candidates in various stages of clinical and preclinical development:



There can be no assurance that the upcoming milestones will be met on the expected timeline or at all.

Pipeline Highlights and Recent Developments

Dermatology

Beremagene geperpavec ("B-VEC") is a topical gel containing our novel vector designed to deliver two copies of the *COL7A1* transgene for the treatment of dystrophic epidermolysis bullosa (“DEB”), a serious rare skin disease caused by missing or mutated COL7 protein. We submitted a Biologics License Application (“BLA”) to the FDA for B-VEC for the treatment of DEB in June 2022. The FDA accepted the BLA in August 2022 granting B-VEC a Priority Review Designation. The action date for B-VEC is May 19, 2023. We submitted a request for a Marketing Authorization Application (“MAA”) with the European Medicines Agency (“EMA”) in November 2022 for B-VEC for the treatment of DEB in patients 6 months and older. The Company was informed by the EMA in January 2023 to modify the Pediatric Investigation Plan (“PIP”) waiver request to include patients between birth and 6 months. The Company has modified and submitted the PIP waiver so that the MAA procedure can officially start in the second half of 2023 with an approval expected in early 2024.

KB105 is a topical gel containing our novel vector designed to deliver two copies of the *TGM1* transgene for the treatment of TGM1-deficient autosomal recessive congenital ichthyosis ("TGM1-ARCI"), a serious rare skin disorder caused by missing or mutated TGM1 protein. A randomized, placebo-controlled Phase 1/2 study is ongoing. In July 2021, we announced complete data from the Phase 1 trial, showing repeat topical KB105 dosing continued to be well tolerated with no adverse events or evidence of immune response. Details of the Phase 1/2 study can be found at www.clinicaltrials.gov under NCT identifier NCT04047732. We plan to initiate a Phase 2 study in the first half of 2023.

KB104 is a topical gel formulation of our novel vector designed to deliver two copies of the *SPINK5* transgene for the treatment of Netherton Syndrome, a debilitating autosomal recessive skin disorder caused by missing or mutated SPINK5 protein. The FDA has granted KB104 rare pediatric designation for the treatment of Netherton Syndrome. We plan to file an Investigational New Drug (“IND”) application and initiate a clinical trial of KB104 to treat patients with Netherton Syndrome in 2023.

Respiratory

KB407 is an inhaled (nebulized) formulation of our novel vector designed to deliver two copies of the full-length cystic fibrosis transmembrane conductance regulator ("CFTR") transgene for the treatment of cystic fibrosis, a serious rare lung disease caused by missing or mutated CFTR protein. In September 2021, we announced that the Bellberry Human Research Ethics Committee in Australia granted approval to conduct a Phase 1 clinical study of inhaled KB407 in patients with cystic fibrosis, and trial initiation is anticipated in the first half of 2023. Details of the Phase 1 study can be found at www.clinicaltrials.gove under NCT identifier NCT05095246. In August 2022, we announced that the FDA had accepted our IND application to evaluate KB407 in a clinical trial to treat patients with cystic fibrosis. Details of the Phase 1 study can be found at www.clinicaltrials.gov under NCT identifier NCT05504837. We are closely working with the Therapeutics Development Network of the Cystic Fibrosis Foundation to validate our Phase 1 clinical protocol. We plan to initiate a Phase 1 clinical trial in the U.S. in the first half of 2023.

KB408 is an inhaled (nebulized) formulation of our novel vector designed to deliver two copies of the *SERPINA1* transgene, that encodes for normal human alpha-1 antitrypsin protein, for the treatment of alpha-1 antitrypsin deficiency ("AATD"). We presented preclinical pharmacology data for KB408 at the European Society of Gene & Cell Therapy Virtual Congress that was held October 19-22, 2021. We are planning to file an IND for KB408 to treat AATD patients in the second half of 2023.

Aesthetics

We are also leveraging the ability of our platform to deliver proteins of interest to cells in the skin in the context of aesthetic medicine via our wholly-owned subsidiary, Jeune Aesthetics, Inc. ("Jeune"). KB301 is a solution formulation of our novel vector for intradermal injection designed to deliver two copies of the *COL3A1* transgene to address signs of aging or damaged skin caused by declining levels of, or damaged proteins within the extracellular matrix, including type III collagen. In March 2021, Jeune announced that data from the safety cohort of a Phase 1 clinical trial, the PEARL-1 trial, for the treatment of aesthetic skin conditions, showed the safety and tolerability of repeat KB301 injections. Complete results from the safety cohort of the PEARL-1 trial were presented at the 2021 Society for Investigative Dermatology Annual Meeting. In 2022, we completed efficacy and durability cohorts of the PEARL-1 trial. In March 2022, Jeune announced positive proof-of-concept, safety and efficacy data with respect to improvement of fine lines and wrinkles from the efficacy cohort of the PEARL-1 trial. In November 2022, Jeune announced data from the PEARL-1 extension cohort showing up to nine-month durability of effect following administration of high dose KB301. Details of the Phase 1 study can be found at www.clinicaltrials.gov under NCT identifier (NCT04540900).

Jeune has several other aesthetic medicine product candidates in various stages of preclinical development as reflected in the chart above.

Business Highlights and Recent Developments

- In April 2023, the Company presented new data on the compassionate use of topical B-VEC to treat a patient with DEB with recurrent cicatrizing conjunctivitis at the Association for Research in Vision and Ophthalmology (ARVO) 2023 Annual Meeting. The patient underwent surgical symblepharon lysis with pannus removal in the right eye. B-VEC was administered to the patient's right eye at regular intervals following surgery in addition to routine post-surgical management. B-VEC was well tolerated and associated with full corneal healing by 3 months as well as significant visual acuity improvement from hand motion to 20/40 at 7 months, the latest time point of the on-going treatment effect evaluation.
- In April 2023, the Company was informed by the Ministry of Health, Labour and Welfare (MHLW) of Japan that B-VEC was confirmed as safe for importation under the Cartagena Act. With the approval for importation of B-VEC under the Cartagena Act, we intend to start a small open label extension ("OLE") study of B-VEC in Japan with an approval in Japan expected in early 2025.
- In April 2023, Jeune treated the first subject in the Phase 1, Cohort 3 study of KB301 for the improvement of lateral canthal lines at rest. The Phase 1, Cohort 3 study is being conducted at a single center as an open label study to evaluate two different doses of KB301 in up to 20 subjects. Improvement of lateral canthal lines at rest ("LCL") was selected as a target indication for KB301 based upon the Phase 1 safety, efficacy and durability studies, which evaluated KB301 in the lower and upper cheek, including the lateral canthal region. Subjects will be followed for three months after KB301 treatment, and the study is expected to be completed in the second half of 2023. Following completion of this study, Jeune plans to initiate a Phase 2 study of KB301 in LCL.

COVID-19 Update

To date the impact of the COVID-19 pandemic on our business and clinical trials in the U.S. has been minimal. Outside of the U.S., we experienced pandemic-related delays in clinical trial initiation in Australia. We will closely monitor any potential impact that future public health crises may have on our clinical trials. For additional information, please see "The effect of the COVID-19 pandemic or similar public health crises on our operations and the operations of our third-party partners could cause a disruption of the development efforts for our product candidates and adversely impact our business" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Financial Overview

Revenue

We currently have no approved products for commercial marketing or sale and have not generated any revenue from the sale of products or other sources to date. In the future, we may generate revenue from product sales, royalties on product sales, or license fees, milestones, or other upfront payments if we enter into any collaborations or license agreements. We expect that our future revenue will fluctuate from quarter to quarter for many reasons, including the uncertain timing and amount of any such sales.

Research and Development Expenses

Research and development expenses consist primarily of costs incurred to advance our preclinical and clinical candidates, which include:

- expenses incurred under agreements with contract manufacturing organizations, contract research organizations, consultants and other vendors that conduct our preclinical activities;
- costs of acquiring, developing and manufacturing clinical trial materials and lab supplies;
- facility costs, depreciation and other expenses, which include direct expenses for rent and maintenance of facilities and other supplies; and
- payroll related expenses, including stock-based compensation expense.

We expense internal research and development costs to operations as incurred. We expense third-party costs for research and development activities, such as the manufacturing of preclinical and clinical materials, based on an evaluation of the progress to completion of specific tasks such as manufacturing of drug substance, fill/finish and stability testing, which is provided to us by our vendors.

We expect our research and development expenses will increase as we continue the manufacturing of preclinical and clinical materials and manage the clinical trials of, and seek regulatory approval for, our product candidates and expand our product portfolio. In the near term, we expect that our research and development expenses will increase as we continue our open label extension study for B-VEC, resume dosing with KB105 Phase 1/2 clinical trial, continue the Phase 1, Cohort 3 study and initiate a Phase 2 trial for KB301, initiate Phase 1 trials for KB407, initiate a Phase 1 trial for KB104, and incur preclinical expenses for our other product candidates. Due to the numerous risks and uncertainties associated with product development, we cannot determine with certainty the duration, costs and timing of clinical trials, and, as a result, the actual costs to complete clinical trials may exceed the expected costs.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and other related costs, including stock-based compensation for personnel in our executive, commercial, business development and other administrative functions. General and administrative expenses also include professional fees associated with corporate and intellectual property-related legal expenses, consulting and accounting services, facility-related costs and expenses associated with obtaining and maintaining patents. Other general and administrative costs include travel expenses.

We anticipate that our general and administrative expenses will increase in the future to support the continued research and development of our product candidates and our commercial and operational goals. These increases will likely include increased costs for insurance, costs related to the hiring of additional personnel and payments to outside consultants, lawyers and accountants, among other expenses. Additionally, we anticipate that we will continue to increase our salary and personnel costs and other expenses as a result of our preparation for commercial operations.

ASTRA Capital Expenditures

In March 2021, we closed on the purchase of the building that was constructed to house our second CGMP facility, ASTRA. We are currently in the process of constructing the interior build-out of this facility and we have entered into a contract with Whiting-Turner who manages the construction of ASTRA. The Company placed a portion of ASTRA into service during the three months ended March 31, 2023 as it was determined that certain assets were ready for their intended use. On March 27, 2023, the Company received the permanent occupancy permit for ASTRA which allowed the Company to begin utilizing certain portions of the building. As certain building improvements and certain qualification activities are still underway, the Company will continue to hold the remaining assets within construction in progress until validation has been completed and the assets are ready for their intended use. Validation of the facility is expected to be completed in 2023.

Interest and Other Income

Interest and other income consists primarily of income earned from our cash, cash equivalents and investments.

Critical Accounting Policies, and Significant Judgments and Estimates

There have been no significant changes during the three months ended March 31, 2023 to our critical accounting policies, significant judgments and estimates as disclosed in our management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2022.

Results of Operations

Three Months Ended March 31, 2023 and 2022

	Three Months Ended March 31,		
	2023	2022	Change
(In thousands)	(unaudited)		
Expenses			
Research and development	$ 12,288	$ 9,314	$ 2,974
General and administrative	24,035	15,908	8,127
Litigation settlement	12,500	25,000	(12,500)
Total operating expenses	48,823	50,222	(1,399)
Loss from operations	(48,823)	(50,222)	1,399
Other Income			
Interest and other income, net	3,526	257	3,269
Net loss	$ (45,297)	$ (49,965)	$ 4,668

Research and Development Expenses

Research and development expenses increased $3.0 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The increase was primarily due to increased payroll related expenses of $2.4 million, which were primarily driven by an increase in headcount to support overall growth, and includes a $1.1 million increase in stock-based compensation, an increase in outsourced research and development activities of $432 thousand, and increased other research and development expenses of $1.2 million, primarily due to depreciation, facilities expenses, license and regulatory fees, and software related costs. The increase was partially offset by decreases in preclinical, clinical and pre-commercial manufacturing expenses of $1.0 million, due to fewer receipts of raw materials and lab supplies period over period that were purchased for planned manufacturing runs of the Company's products.

Research and development expenses consist primarily of costs relating to the preclinical and clinical development of our product candidates and preclinical programs. Direct research and development expenses associated with our product candidates or development programs consist of compensation related expenses for our internal resources conducting research and development activities, fees paid to external consultants, contract research organizations, or for costs to support our clinical trials. Indirect research and development expenses that are allocated to our product candidates or programs consist of lab supplies and software fees. A significant portion of our research and development expenses are not allocated to individual product candidates and preclinical programs, as certain expenses benefit multiple product candidates and pre-clinical programs. For example, we do not allocate costs associated with stock-based compensation, manufacturing of preclinical or clinical development products or costs relating to facilities and equipment to individual product candidates and preclinical programs.

The following table summarizes our research and development expense by product candidate or program, and for unallocated expenses, by type, for the quarters ended March 31, 2023 and 2022:

	Three Months Ended March 31,		
(in thousands)	**2023**	**2022**	**Change**
B-VEC	$ 2,387	$ 1,543	$ 844
KB105	231	22	$ 209
KB407	377	391	$ (14)
KB301	250	207	$ 43
Other dermatology programs	8	6	$ 2
Other respiratory programs	112	22	$ 90
Other aesthetics programs	13	14	$ (1)
Other research programs	596	211	$ 385
Other development programs	335	146	$ 189
Stock-based compensation	2,496	1,368	$ 1,128
Other unallocated manufacturing expenses[(1)]	3,919	4,502	$ (583)
Other unallocated expenses[(2)]	1,564	882	$ 682
Research and development expense	$ 12,288	$ 9,314	$ 2,974

(1) Unallocated manufacturing expenses consist of shared pre-commercial manufacturing costs, primarily relating to raw materials, contract manufacturing, contract testing, process development, quality control and quality assurance activities and other manufacturing costs which support the development of multiple product candidates in our preclinical and clinical development programs.

(2) Other unallocated expenses include rental, storage, depreciation, and other facility related costs that we do not allocate to our individual product candidates.

As noted above, research and development expense increased $3.0 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022. Expenses for B-VEC increased $844 thousand, due to increased payroll related expenses to support pre-approval activities, clinical trial costs, license and regulatory costs and increased allocated research and development expenses. KB105 and other development programs spending increased primarily due to payroll related costs. Spending on other research programs increased by $385 thousand due primarily to increased internal resources and other payroll related costs and an increase from allocated research and development expenses. Stock-based compensation increased $1.1 million due to an increase in internal resources to support overall research and development growth. Additionally, other unallocated expenses increased $682 thousand primarily related to increases in depreciation expense. These increases were offset by a decrease in other unallocated manufacturing expenses of $583 thousand due to fewer receipts of raw materials period over period that were purchased for planned manufacturing runs of the Company's products.

General and Administrative Expenses

General and administrative expenses increased $8.1 million in the three months ended March 31, 2023 as compared to the three months ended March 31, 2022. Higher general and administrative spending was due largely to increases in payroll related expenses of approximately $7.0 million, which was primarily driven by an increase in headcount in our commercial and other administrative functions to support overall growth and preparation for commercialization, and includes a $2.9 million increase in stock-based compensation, increased marketing costs of $919 thousand, increased software-related costs of $253 thousand, increased travel related costs of $232 thousand, and an increase in other general and administrative expenses of $456 thousand, which consisted primarily of increased information technology costs and utilities costs. These increases were partially offset by a net decrease of legal costs of $434 thousand, which consists of decreased legal and professional fees of $943 thousand offset by a decrease in litigation related insurance proceeds of approximately $509 thousand, due primarily to the settlement of the PeriphaGen litigation, and a decrease in medical affairs costs of $277 thousand.

Litigation Settlement

Litigation settlement for the three months ended March 31, 2023 and 2022 was $12.5 million and $25.0 million, respectively, and consisted of amounts related to the settlement of litigation with PeriphaGen. For the three months ended March 31, 2023, in accordance with ASC Topic 450, *Contingencies*, we determined that FDA approval of B-VEC was probable, and recorded expense relating to the first milestone payment, which becomes payable upon the approval of our first product by

the FDA. See "Legal Proceedings" in Note 6 of the notes to condensed consolidated financial statements included in this Form 10-Q for more information.

Interest and Other Income

Interest and other income for the three months ended March 31, 2023 and 2022 was $3.5 million and $257 thousand, respectively, and consisted of interest and dividend income earned from our cash, cash equivalents and investments. The increase in interest and dividend income is the result of increased investment activity and more favorable interest rates as compared to the prior period.

Liquidity and Capital Resources

Overview

At March 31, 2023, our cash, cash equivalents and short-term investments balance was approximately $350.4 million. Since operations began, we have incurred operating losses. Our net losses were $45.3 million and $50.0 million for the three months ended March 31, 2023 and 2022, respectively. At March 31, 2023, we had an accumulated deficit of $326.1 million. We believe that our cash, cash equivalents and short-term investments as of March 31, 2023 will be sufficient to allow us to fund operations for at least 12 months from the filing date of this Quarterly Report on Form 10-Q.

As we continue to incur losses, a transition to profitability is dependent upon the successful development, approval and commercialization of our product candidates and the achievement of a level of revenues adequate to support our cost structure. Furthermore, we expect to incur increasing costs associated with satisfying regulatory and quality standards, maintaining product and clinical trials, and furthering our efforts around our current and future product candidates. We may never achieve profitability, and unless and until we do, we will continue to need to raise additional capital or obtain financing from other sources.

Costs related to clinical trials can be unpredictable and therefore there can be no guarantee that we will have sufficient capital to fund our continued clinical studies of B-VEC, KB105, KB407, KB301 or our planned clinical and preclinical studies for our other product candidates, or our operations. Further, we do not expect to generate any product revenues until 3Q 2023, at the earliest, assuming we receive marketing approval for B-VEC on the schedule we currently contemplate. While we are in the process of building out our internal vector manufacturing capacity, some of our manufacturing activities will be contracted out to third parties. Additionally, we currently utilize third-party contract research organizations to carry out some of our clinical development activities. As we seek to obtain regulatory approval for our product candidates, we expect to continue to incur significant manufacturing and commercialization expenses as we prepare for product sales, marketing, commercial manufacturing, packaging, labeling and distribution. Furthermore, pursuant to our settlement agreement with PeriphaGen, we will be required to pay $12.5 million upon the approval of our first product by the FDA, followed by three additional $12.5 million contingent milestone payments upon reaching $100.0 million in total cumulative sales, $200.0 million in total cumulative sales and $300.0 million in total cumulative sales. Our funds may not be sufficient to enable us to conduct pivotal clinical trials for, seek marketing approval for or commercially launch B-VEC, KB105, KB407, KB301 or any other product candidate. Accordingly, to obtain marketing approval for and to commercialize these or any other product candidates, we may be required to obtain further funding through public or private equity offerings, debt financings, collaboration and licensing arrangements or other sources. Adequate additional financing may not be available to us on acceptable terms, if at all. Our failure to raise capital when needed could have a negative effect on our financial condition and our ability to pursue our business strategy.

Operating Capital Requirements

Our primary uses of capital are, and we expect will continue to be for the near future, compensation and related expenses, manufacturing costs for preclinical and clinical materials, third-party clinical trial research and development services, laboratory and related supplies, pre-commercialization costs, legal and other regulatory expenses, payments of settlement amounts to PeriphaGen and general overhead costs. In order to complete the process of obtaining regulatory approval for any of our product candidates and to build the sales, manufacturing, marketing and distribution infrastructure that we believe will be necessary to commercialize our product candidates, if approved, we may require substantial additional funding.

We have based our projections of operating capital requirements on assumptions that may prove to be incorrect, and we may use all of our available capital resources sooner than we expect. Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the timeline and cost of our OLE study for B-VEC;
- the progress, timing and costs of our ongoing Phase 1/2 clinical trials for KB105;

- the progress, timing and costs of our Phase 1, Cohort 3 study and Phase 2 clinical trials for KB301;
- the progress, timing and costs of our KB407 clinical trials;
- the progress, timing and costs of manufacturing of B-VEC;
- the continued development and the filing of an IND application for current and future product candidates;
- the initiation, scope, progress, timing, costs and results of drug discovery, laboratory testing, manufacturing, preclinical studies and clinical trials for any other product candidates that we may pursue in the future, if any;
- the costs of maintaining our own commercial-scale CGMP manufacturing facilities;
- the outcome, timing and costs of seeking regulatory approvals;
- the costs associated with the manufacturing process development and evaluation of third-party manufacturers;
- the extent to which the costs of our product candidates, if approved, will be paid by health maintenance, managed care, pharmacy benefit and similar healthcare management organizations, or will be reimbursed by government authorities, private health coverage insurers and other third-party payors;
- the costs of commercialization activities for our current and future product candidates if we receive marketing approval for such product candidates we may develop, including the costs and timing of establishing product sales, medical affairs, marketing, distribution and manufacturing capabilities;
- subject to receipt of marketing approval, if any, revenue received from commercial sale of our current and future product candidates;
- the terms and timing of any future collaborations, licensing, consulting or other arrangements that we may establish;
- the amount and timing of any payments we may be required to make, or that we may receive, in connection with the licensing, filing, prosecution, maintenance, defense and enforcement of any patents or other intellectual property rights, including milestone and royalty payments and patent prosecution fees that we are obligated to pay pursuant to our license agreements;
- our current license agreements remaining in effect and our achievement of milestones under those agreements;
- our ability to establish and maintain collaborations and licenses on favorable terms, if at all; and
- the extent to which we acquire or in-license other product candidates and technologies.

We may need to obtain substantial additional funding in order to receive regulatory approval and to commercialize our product candidates. To the extent that we raise additional capital through the sale of common stock, convertible securities or other equity securities, the ownership interests of our existing stockholders may be materially diluted and the terms of these securities could include liquidation or other preferences that could adversely affect the rights of our existing stockholders. In addition, debt financing, if available, would result in increased fixed payment obligations and may involve agreements that include restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends, that could adversely affect our ability to conduct our business. If we are unable to raise capital when needed or on attractive terms, we could be forced to significantly delay, scale back or discontinue the development or commercialization of our product candidates, seek collaborators at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available, and relinquish or license, potentially on unfavorable terms, our rights to our product candidates that we otherwise would seek to develop or commercialize ourselves.

Sources and Uses of Cash

The following table summarizes our sources and uses of cash for the three months ended March 31, 2023 and 2022 (in thousands):

	Three Months Ended March 31,	
	2023	2022
	(unaudited)	
Net cash used in operating activities	(26,156)	(15,493)
Net cash provided by (used in) investing activities	3,563	(55,908)
Net cash provided by (used in) financing activities	1,474	(542)
Effect of exchange rate changes on cash and cash equivalents	(36)	—
Net decrease in cash	$ (21,155)	$ (71,943)

Operating Activities

Net cash used in operating activities for the three months ended March 31, 2023 was $26.2 million and consisted primarily of a net loss of $45.3 million adjusted for non-cash items primarily comprised of stock-based compensation expense of $10.4 million and depreciation and amortization of $705 thousand, and cash provided by decreases in net working capital of approximately $8.6 million which includes an increase in accrued legal settlement of $12.5 million.

Net cash used in operating activities for the three months ended March 31, 2022 was $15.5 million and consisted primarily of a net loss of $50.0 million adjusted for non-cash items primarily of depreciation and amortization and stock-based compensation expense of $7.3 million, and cash provided by decreases in net working capital of approximately $27.2 million which includes an increase in accrued legal settlement of $25.0 million.

Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2023 was $3.6 million and consisted primarily of proceeds of $154.5 million received from the maturities of short-term investments, partially offset by expenditures of $5.4 million on the build-out of our ASTRA facility, leasehold improvement of new office space, and purchases of computer and laboratory equipment, and $145.6 million on the purchase of short-term and long-term investments.

Net cash used in investing activities for the three months ended March 31, 2022 was $55.9 million and consisted primarily of expenditures of $17.2 million on the build-out of our ASTRA facility, leasehold improvement of new office space, and purchases of computer and laboratory equipment, $62.8 million on the purchase of short-term and long-term investments, partially offset by proceeds of $24.0 million received from the maturities of short-term investments.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2023 was $1.5 million and consisted primarily of proceeds of $2.2 million received from exercises of stock options and partially offset by $749 thousand used for the employee tax withholding payment for settlement of vested restricted stock awards.

Net cash used by financing activities for the three months ended March 31, 2022 was $542 thousand and consisted primarily of proceeds of $107 thousand received from exercises of stock options and offset by $649 thousand used for the employee tax withholding payment for settlement of vested restricted stock awards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Qualitative and Quantitative Disclosures About Market Risk

We had cash, cash equivalents and short-term investments of $350.4 million at March 31, 2023, which consist primarily of money market, bank deposits, commercial paper, corporate bonds, and government agency securities. The investments in these financial instruments are made in accordance with an investment policy which specifies the categories, allocations and ratings of securities we may consider for investment. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. Some of the financial instruments in which we invest could be subject to market risk. This means that a change in prevailing interest rates may cause the value of the instruments to fluctuate. For example, if we purchase a security that was issued with a fixed interest rate and the prevailing interest rate later rises, the value of that security will probably decline. To minimize this risk, we intend to maintain a portfolio which may include cash, cash equivalents and short and long-term investment securities available-for-sale in a variety of securities which may include money market funds, government and non-government debt securities and commercial paper, all with various maturity dates. Based on our current investment portfolio, we do not believe that our results of operations or our financial position would be materially affected by an immediate change of 10% in interest rates.

We do not hold or issue derivatives, derivative commodity instruments or other financial instruments for speculative trading purposes. Further, we do not believe our cash, cash equivalents and short-term investments have a significant risk of default or illiquidity. While we believe our cash, cash equivalents and short-term investments do not contain excessive risk, we cannot provide absolute assurance that the investments we make in the future will not be subject to adverse changes in market value. Our cash, cash equivalents and short and long-term investments are recorded at fair value.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Accounting Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this quarterly report, and our Chief Executive Officer and our Chief Accounting Officer have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2023 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

The information set forth under the heading “Legal Proceedings” in Note 6 of the notes to condensed consolidated financial statements included in Item 1 of Part I of this Form 10-Q is incorporated by reference in response to this item.

Item 1A. Risk Factors.

As disclosed in "Summary Risk Factors" and "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, as filed with the SEC on February 27, 2023, there are a number of risks and uncertainties that may have a material effect on the operating results of our business and our financial condition. There have been no material changes from the risk factors previously disclosed in such filing.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes information with respect to purchases of our equity securities during the quarter ended March 31, 2023:

Period	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
January 1, 2023 - January 31,2023	—	$ —	—	—
February 1, 2023 - February 28, 2023	9,551	$ 78.89	—	—
March 1, 2023 - March 31, 2023	—	$ —	—	—
Total	9,551 (1)	$ 78.89	—	—

(1) Represents shares withheld from employees for taxes resulting from the vesting of restricted stock awards.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	
10.1#	Form of Time-Based Restricted Stock Unit Award Agreement under the 2017 IPO Stock Incentive Plan
10.2#	Form of Performance-Based Restricted Stock Unit Award Agreement under the 2017 IPO Stock Incentive Plan
31.1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Periodic Report by Chief Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Inline XBRL (Extensible Business Reporting Language). The following materials from this Quarterly Report on Form 10-Q for the period ended March 31, 2023, are formatted in Inline XBRL: (i) consolidated balance sheets of Krystal Biotech, Inc., (ii) consolidated statements of operations of Krystal Biotech, Inc., (iii) consolidated statements of comprehensive income/(loss) of Krystal Biotech, Inc., (iv) consolidated statements of changes in equity of Krystal Biotech, Inc., (v) consolidated statements of cash flows of Krystal Biotech, Inc. and (vi) notes to consolidated financial statements of Krystal Biotech, Inc. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL.

# Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KRYSTAL BIOTECH, INC.
(Registrant)

Date: May 8, 2023	By:	/s/ Krish S. Krishnan
		Krish S. Krishnan President and Chief Executive Officer (Principal executive officer)
	By:	/s/ Kathryn A. Romano
		Kathryn A. Romano Chief Accounting Officer (Principal financial and accounting officer)

KRYSTAL BIOTECH, INC. 2017 IPO STOCK INCENTIVE PLAN

NOTICE OF RESTRICTED STOCK UNIT AWARD

Grantee's Name and Address: __

__

__

You (the "Grantee") have been granted an award of Restricted Stock Units (the "RSUs"), subject to the terms and conditions of this Notice of Restricted Stock Unit Award (the "Notice"), the Krystal Biotech, Inc. 2017 IPO Stock Incentive Plan, as amended from time to time (the "Plan"), and the Restricted Stock Unit Award Agreement (the "Agreement") attached hereto, as follows. Unless otherwise provided herein, the terms in this Notice shall have the same meaning as those defined in the Plan.

Award Number __

Date of Award __

Vesting Commencement Date __

Total Number of RSUs __

Vesting Schedule:

Subject to the Grantee's Continuous Service and other limitations set forth in this Notice, the Agreement and the Plan, the RSUs will "vest" in accordance with the following schedule (the "Vesting Schedule"):

The unvested RSUs shall vest ratably over a four year period with one-fourth of the unvested RSUs vesting on the Vesting Commencement Date and one-fourth vesting on each anniversary thereafter until all unvested RSUs have vested.

During any authorized leave of absence, the vesting of the RSUs as provided in this schedule shall be suspended after the leave of absence exceeds a period of three (3) months. Vesting of the RSUs shall resume upon the Grantee's termination of the leave of absence and return to service to the Company or a Related Entity. The Vesting Schedule of the RSUs shall be extended by the length of the suspension.

In the event of the Grantee's change in status from Employee, Director or Consultant to any other status of Employee, Director or Consultant, the RSUs shall continue to vest in accordance with the Vesting Schedule set forth above.

If the Grantee would become vested in a fraction of an RSU, such RSU shall not vest until the Grantee becomes vested in the entire RSU.

Vesting shall cease upon the date of termination of the Grantee's Continuous Service for any reason, including death or Disability. In the event the Grantee's Continuous Service is terminated for any reason, including death or Disability, all unvested RSUs will be forfeited to the Company, and all rights of the Grantee to such RSUs will immediately terminate without payment of any consideration to the Grantee.

The RSUs shall be subject to the provisions of Section 11 of the Plan in the event of a Corporate Transaction or Change in Control.

IN WITNESS WHEREOF, the Company and the Grantee have executed this Notice and agree that the RSUs are to be governed by the terms and conditions of this Notice, the Plan and the Agreement.

Krystal Biotech, Inc.,
a Delaware corporation

By: __
Title: __

THE GRANTEE ACKNOWLEDGES AND AGREES THAT THE RSUS SHALL VEST, IF AT ALL, ONLY DURING THE PERIOD OF THE GRANTEE'S CONTINUOUS SERVICE OR AS OTHERWISE SPECIFICALLY PROVIDED HEREIN (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THESE RSUS OR ACQUIRING SHARES HEREUNDER). THE GRANTEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS NOTICE, THE AGREEMENT, OR THE PLAN SHALL CONFER UPON THE GRANTEE ANY RIGHT WITH RESPECT TO FUTURE AWARDS OR CONTINUATION OF THE GRANTEE'S CONTINUOUS SERVICE, NOR SHALL IT INTERFERE IN ANY WAY WITH THE GRANTEE'S RIGHT OR THE RIGHT OF THE COMPANY OR RELATED ENTITY TO WHICH THE GRANTEE PROVIDES SERVICES TO TERMINATE THE GRANTEE'S CONTINUOUS SERVICE AT ANY TIME, WITH OR WITHOUT CAUSE, AND WITH OR WITHOUT NOTICE. THE GRANTEE ACKNOWLEDGES THAT UNLESS THE GRANTEE HAS A WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY TO THE CONTRARY, THE GRANTEE'S STATUS IS AT WILL.

The Grantee acknowledges receipt of a copy of the Plan and the Agreement and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the RSUs subject to all of the terms and provisions hereof and thereof. The Grantee has reviewed this Notice, the Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Notice and fully understands all provisions of this Notice, the Agreement and the Plan. The Grantee hereby agrees that all questions of interpretation and administration relating to this Notice, the Plan and the Agreement shall be resolved by the Administrator in accordance with Section 10 of the Agreement. The Grantee further agrees to the venue selection and waiver of a jury trial in accordance with Section 11 of the Agreement. The Grantee further agrees to notify the Company upon any change in the residence address indicated in this Notice.

The Company may, in its sole discretion, decide to deliver this Notice, the Agreement, the Plan and the Plan prospectus (collectively, the "Plan Documents") to the Grantee by electronic means or request the Grantee's consent to participate in the Plan by electronic means. The Grantee hereby agrees to Company's provision to the Grantee of these documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

If the Grantee does not accept or decline this RSU award within 90 days of the Date of Award or by such other date that may be communicated the Grantee by the Company, the Company will accept this RSU award on the Grantee's behalf and Grantee will be deemed to have accepted the terms and conditions of the RSUs set forth in the Plan and the Award Agreement. If the Grantee wishes to decline this RSU award, the Grantee should promptly notify the Company at 412-586-5830. If Grantee declines this RSU award, the RSUs will be cancelled and no benefits from the RSUs nor any compensation or benefits in lieu of the RSUs will be provided to Grantee.

The Grantee acknowledges that the Grantee has access to the Company's intranet and has either received electronic or paper copies of the Plan Documents.

Dated: __ Signed: __

KRYSTAL BIOTECH, INC. 2017 IPO STOCK INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

1. Grant of RSUs. Krystal Biotech, Inc., a Delaware corporation (the "Company"), hereby grants to the Grantee (the "Grantee") named in the Notice of Restricted Stock Unit Award (the "Notice"), the Total Number of RSUs set forth in the Notice, subject to the Notice, this Restricted Stock Unit Award Agreement (the "Agreement") and the terms and provisions of the Company's 2017 IPO Stock Incentive Plan (the "Plan"), as amended from time to time, which are incorporated herein by reference. An RSU is a non-voting unit of measurement which is deemed solely for bookkeeping purposes to be equivalent to one outstanding Share. The RSUs are used solely as a device to determine the number of Shares to eventually be issued to Grantee if such RSUs vest. The RSUs shall not be treated as property or as a trust fund of any kind. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement.

2. Settlement.

(a) On or as soon as administratively practical (and within thirty (30) days) following the applicable date of vesting under the Vesting Schedule set forth in the Notice (a "Vesting Date"), the Company will deliver to Grantee a number of Shares (either by delivering one or more certificates for such Shares or by entering such Shares in book entry form, as determined by the Company in its discretion) equal to the number of RSUs that vest on the applicable Vesting Date, subject to the satisfaction of any applicable tax withholding obligations. No fractional RSUs or rights for fractional Shares shall be created pursuant to this Agreement.

(b) The Company reserves the right to issue to the Grantee the cash equivalent of Shares, in part or in full satisfaction of the delivery of Shares, upon vesting of the RSUs, and to the extent applicable, references in the Agreement to Shares issuable in connection with the RSUs will include the potential issuance of its cash equivalent pursuant to such right.

3. Dividend and Voting Rights. Unless and until such time as Shares are issued in settlement of vested RSUs, the Grantee will have no ownership of the Shares allocated to the RSUs, and will have no rights to vote such Shares and no rights to dividends.

4. Transfer Restrictions. The RSUs and any interest therein may not be sold, transferred by gift, pledged, hypothecated, or otherwise transferred or disposed of in any manner other than by will or the laws of descent or distribution or court order. The terms of the RSUs shall be binding upon the executors, administrators, heirs, successors and assigns of the Grantee.

5. Termination of Continuous Service. If the Grantee's Continuous Service terminates for any reason, including death or Disability, all unvested RSUs will be forfeited to the Company, and all rights of the Grantee to such RSUs will immediately terminate without payment of any consideration to the Grantee. The Administrator shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of his or her RSU grant (including whether the Grantee may still be considered to be providing services while on a leave of absence).

6. Taxes.

(a) Tax Liability. The Grantee is ultimately liable and responsible for all taxes owed by the Grantee in connection with the RSUs, regardless of any action the Company or any Related Entity takes with respect to any tax withholding obligations that arise in connection with the RSUs. Neither the Company nor any Related Entity makes any representation or undertaking regarding the treatment of any tax withholding in connection with the grant or vesting of the RSUs or the subsequent sale of Shares issued in settlement of the RSUs. The Company and its Related Entities do not commit and are under no obligation to structure the RSUs to reduce or eliminate the Grantee's tax liability.

(b) Payment of Withholding Taxes. Prior to any event in connection with the RSUs that the Company determines may result in any tax withholding obligation, whether United States federal, state, local or non-U.S., including any social insurance, employment tax, payment on account or other tax-related obligation (the "Tax

Withholding Obligation"), the Grantee must arrange for the satisfaction of the minimum amount of such Tax Withholding Obligation in a manner acceptable to the Company.

(i) *By Share Withholding*. Notwithstanding Section 7(c) of the Plan, if permissible under Applicable Law, the Administrator may permit the Grantee to elect to authorize the Company to withhold from those Shares otherwise issuable upon settlement of the RSUs to the Grantee the whole number of Shares sufficient to satisfy up to the maximum applicable Tax Withholding Obligation. The maximum applicable Tax Withholding Obligation is based on the applicable rates of the relevant tax authorities (for example, federal, state and local), including the Grantee's share of payroll or similar taxes, as provided in the tax law, regulations or the authority's administrative practices, not to exceed the highest statutory rate in that jurisdiction. Any elections to have Shares withheld or sold for this purpose will be made in accordance with the requirements established by the Administrator for such elections and be in writing in a form acceptable to the Administrator. Further, if permissible under Applicable Law, the Grantee hereby authorizes the Company to, upon the exercise of its sole discretion, withhold from those Shares otherwise issuable to the Grantee the whole number of Shares sufficient to satisfy the minimum applicable Tax Withholding Obligation. The Grantee acknowledges that the withheld Shares may still not be sufficient to satisfy the Grantee's minimum Tax Withholding Obligation. Accordingly, the Grantee agrees to pay to the Company or any Related Entity as soon as practicable, including through additional payroll withholding, any amount of the Tax Withholding Obligation that is not satisfied by the withholding of Shares described above.

(ii) *By Check, Wire Transfer or Other Means*. At any time not less than five (5) business days (or such fewer number of business days as determined by the Administrator) before any Tax Withholding Obligation arises (e.g., a vesting date), the Grantee may elect to satisfy the Grantee's Tax Withholding Obligation by delivering to the Company an amount that the Company determines is sufficient to satisfy the Tax Withholding Obligation by (x) wire transfer to such account as the Company may direct, (y) delivery of a certified check payable to the Company, or (z) such other means as specified from time to time by the Administrator.

Notwithstanding the foregoing, the Company or a Related Entity also may satisfy any Tax Withholding Obligation by offsetting any amounts (including, but not limited to, salary, bonus and severance payments) payable to the Grantee by the Company and/or a Related Entity. Furthermore, in the event of any determination that the Company and/or a Related Entity has failed to withhold a sum sufficient to pay all withholding taxes due in connection with the RSUs, the Grantee agrees to pay the Company and/or the Related Entity the amount of such deficiency in cash within five (5) days after receiving a written demand from the Company and/or the Related Entity to do so, whether or not the Grantee is an employee of the Company and/or the Related Entity at that time.

7. Stop-Transfer Notices. In order to ensure compliance with the restrictions on transfer set forth in this Agreement, the Notice or the Plan, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records. The Company may issue a "stop transfer" instruction if the Grantee fails to satisfy any Tax Withholding Obligations.

8. Entire Agreement: Governing Law. The Notice, the Plan and this Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. These agreements are to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of the Notice or this Agreement be determined to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

9. Construction. The captions used in the Notice and this Agreement are inserted for convenience and shall not be deemed a part of the RSU award for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

10. Administration and Interpretation. Any question or dispute regarding the administration or interpretation of the Notice, the Plan or this Agreement shall be submitted by the Grantee or by the Company to the Administrator. The resolution of such question or dispute by the Administrator shall be final and binding on all persons.

11. Venue and Waiver of Jury Trial. The parties agree that any suit, action, or proceeding arising out of or relating to the Notice, the Plan or this Agreement shall be brought in the United States District Court for Delaware (or should such court lack jurisdiction to hear such action, suit or proceeding, in a Delaware state court) and that the parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by

law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. **THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING.** If any one or more provisions of this Section 11 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

12. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown in these instruments, or to such other address as such party may designate in writing from time to time to the other party.

13. Language. If the Grantee has received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different than the English version, the English version will control, unless otherwise prescribed by Applicable Law.

14. Nature of RSUs. In accepting the RSUs, the Grantee acknowledges and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the RSU award is voluntary and occasional and does not create any contractual or other right to receive future awards, or benefits in lieu of awards, even if awards have been awarded repeatedly in the past;

(c) all decisions with respect to future awards, if any, will be at the sole discretion of the Company;

(d) the Grantee's participation in the Plan is voluntary;

(e) the Grantee's participation in the Plan shall not create a right to any employment with the Grantee's employer and shall not interfere with the ability of the Company or the employer to terminate the Grantee's employment relationship, if any, at any time;

(f) the RSU is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any Related Entity;

(g) in the event that the Grantee is not an Employee of the Company or any Related Entity, the RSU award and the Grantee's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any Related Entity;

(h) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(i) in consideration of the RSUs, no claim or entitlement to compensation or damages shall arise from termination of the RSUs or diminution in value of the RSUs or Shares acquired upon vesting of the RSUs, resulting from termination of the Grantee's Continuous Service by the Company or any Related Entity (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the grant of the RSUs, the Grantee irrevocably releases the Company and any Related Entity from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing the Notice, the Grantee shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;

(j) in the event of termination of the Grantee's Continuous Service (whether or not in breach of local labor laws), the Grantee's right to receive RSUs under the Plan and to vest in such RSUs, if any, will (except as otherwise provided in the Notice or herein) terminate effective as of the date that the Grantee is no longer providing services and will not be extended by any notice period mandated under local law (e.g., providing services would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of termination of the Grantee's Continuous Service (whether or not in breach of local labor laws), the Administrator shall have the exclusive discretion to determine when the Grantee is no longer providing services for purposes of the RSUs;

(k) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of Shares; and

(l) the Grantee is hereby advised to consult with the Grantee's own personal tax, legal and financial advisers regarding the Grantee's participation in the Plan before taking any action related to the Plan.

15. Data Privacy.

(a) *The Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Grantee's personal data as described in the Notice and this Agreement by and among, as applicable, the Grantee's employer, the Company and any Related Entity for the exclusive purpose of implementing, administering and managing the Grantee's participation in the Plan.*

(b) *The Grantee understands that the Company and the Grantee's employer may hold certain personal information about the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, date of birth, social insurance or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Awards or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in the Grantee's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").*

(c) The Grantee understands that Data will be transferred to any third party assisting the Company with the implementation, administration and management of the Plan. The Grantee understands that the recipients of the Data may be located in the Grantee's country, or elsewhere, and that the recipients' country may have different data privacy laws and protections than the Grantee's country. The Grantee understands that the Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting the Grantee's local human resources representative. The Grantee authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Grantee's participation in the Plan. The Grantee understands that Data will be held only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan. The Grantee understands that the Grantee may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Grantee's local human resources representative. The Grantee understands, however, that refusal or withdrawal of consent may affect the Grantee's ability to participate in the Plan. For more information on the consequences of the Grantee's refusal to consent or withdrawal of consent, the Grantee understands that the Grantee may contact the Grantee's local human resources representative.

END OF AGREEMENT

KRYSTAL BIOTECH, INC. 2017 IPO STOCK INCENTIVE PLAN

NOTICE OF PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD

Grantee's Name and Address: __

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You (the "Grantee") have been granted an award of performance-based Restricted Stock Units (the "RSUs"), subject to the terms and conditions of this Notice of Performance-Based Restricted Stock Unit Award (the "Notice"), the Krystal Biotech, Inc. 2017 IPO Stock Incentive Plan, as amended from time to time (the "Plan"), and the Performance-Based Restricted Stock Unit Award Agreement (the "Agreement") attached hereto, as follows. Unless otherwise provided herein, the terms in this Notice shall have the same meaning as those defined in the Plan.

Award Number __

Date of Award __

Grant Date __

Total Number of RSUs __

Vesting Schedule:

Subject to the Grantee's Continuous Service and other limitations set forth in this Notice, the Agreement and the Plan, the RSUs will "vest" in accordance with the following vesting conditions:

The RSUs are subject to both a performance condition (the "Performance Condition") and a time-based condition (the "Service Condition"), which both must be satisfied for the RSUs to vest. Each installment of RSUs that become vested is a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2).

1. **Performance Condition:** The satisfaction of the Performance Goals set forth in Exhibit A. If the Performance Goals, or a portion of the Performance Goals, are not satisfied, then the corresponding RSUs will be forfeited, unvested (regardless of the Grantee's satisfaction of the Service Condition), as of the determination by the Administrator that the Performance Goals were not satisfied.

2. **Service Condition:** The Service Condition shall be satisfied with respect to one-half of the RSUs on the one-year anniversary of the Grant Date and with respect to an additional one-half of the RSUs on the second anniversary of the Grant Date (the "Service Vesting Schedule").

During any authorized leave of absence, the Service Condition vesting of the RSUs as provided in this schedule shall be suspended after the leave of absence exceeds a period of three (3) months. Service Condition vesting of the RSUs shall resume upon the Grantee's termination of the leave of absence and return to service to the Company or a Related Entity. The Service Vesting Schedule of the RSUs shall be extended by the length of the suspension.

In the event of the Grantee's change in status from Employee, Director or Consultant to any other status of Employee, Director or Consultant, the RSUs shall continue to vest in accordance with the Service Vesting Schedule set forth above.

If the Grantee would become vested in a fraction of an RSU, such RSU shall not vest until the Grantee becomes vested in the entire RSU.

Vesting shall cease upon the date of termination of the Grantee's Continuous Service for any reason, including death or Disability. In the event the Grantee's Continuous Service is terminated for any reason, including death or

Disability, all unvested RSUs will be forfeited to the Company, including, for the avoidance of doubt, any RSUs for which the Performance Condition has been achieved but the Service Condition has not been achieved, and all rights of the Grantee to such RSUs will immediately terminate without payment of any consideration to the Grantee.

The RSUs shall be subject to the provisions of Section 11 of the Plan in the event of a Corporate Transaction or Change in Control.

IN WITNESS WHEREOF, the Company and the Grantee have executed this Notice and agree that the RSUs are to be governed by the terms and conditions of this Notice, the Plan and the Agreement.

Krystal Biotech, Inc.,
a Delaware corporation

By: __
Title: __

THE GRANTEE ACKNOWLEDGES AND AGREES THAT THE RSUS SHALL VEST, IF AT ALL, ONLY DURING THE PERIOD OF THE GRANTEE'S CONTINUOUS SERVICE OR AS OTHERWISE SPECIFICALLY PROVIDED HEREIN (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THESE RSUS OR ACQUIRING SHARES HEREUNDER). THE GRANTEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS NOTICE, THE AGREEMENT, OR THE PLAN SHALL CONFER UPON THE GRANTEE ANY RIGHT WITH RESPECT TO FUTURE AWARDS OR CONTINUATION OF THE GRANTEE'S CONTINUOUS SERVICE, NOR SHALL IT INTERFERE IN ANY WAY WITH THE GRANTEE'S RIGHT OR THE RIGHT OF THE COMPANY OR RELATED ENTITY TO WHICH THE GRANTEE PROVIDES SERVICES TO TERMINATE THE GRANTEE'S CONTINUOUS SERVICE AT ANY TIME, WITH OR WITHOUT CAUSE, AND WITH OR WITHOUT NOTICE. THE GRANTEE ACKNOWLEDGES THAT UNLESS THE GRANTEE HAS A WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY TO THE CONTRARY, THE GRANTEE'S STATUS IS AT WILL.

The Grantee acknowledges receipt of a copy of the Plan and the Agreement and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the RSUs subject to all of the terms and provisions hereof and thereof. The Grantee has reviewed this Notice, the Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Notice and fully understands all provisions of this Notice, the Agreement and the Plan. The Grantee hereby agrees that all questions of interpretation and administration relating to this Notice, the Plan and the Agreement shall be resolved by the Administrator in accordance with Section 10 of the Agreement. The Grantee further agrees to the venue selection and waiver of a jury trial in accordance with Section 11 of the Agreement. The Grantee further agrees to notify the Company upon any change in the residence address indicated in this Notice.

The Company may, in its sole discretion, decide to deliver this Notice, the Agreement, the Plan and the Plan prospectus (collectively, the "Plan Documents") to the Grantee by electronic means or request the Grantee's consent to participate in the Plan by electronic means. The Grantee hereby agrees to Company's provision to the Grantee of these documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

If the Grantee does not accept or decline this RSU award within 90 days of the Date of Award or by such other date that may be communicated the Grantee by the Company, the Company will accept this RSU award on the Grantee's behalf and Grantee will be deemed to have accepted the terms and conditions of the RSUs set forth in the Plan and the Award Agreement. If the Grantee wishes to decline this RSU award, the Grantee should promptly notify the Company at 412-586-5830. If Grantee declines this RSU award, the RSUs will be cancelled and no benefits from the RSUs nor any compensation or benefits in lieu of the RSUs will be provided to Grantee.

The Grantee acknowledges that the Grantee has access to the Company's intranet and has either received electronic or paper copies of the Plan Documents.

Dated: __ Signed: __

KRYSTAL BIOTECH, INC. 2017 IPO STOCK INCENTIVE PLAN

PERFORMANCE-BASED RESTRICTED STOCK UNIT AWARD AGREEMENT

1. Grant of RSUs. Krystal Biotech, Inc., a Delaware corporation (the "Company"), hereby grants to the Grantee (the "Grantee") named in the Notice of Performance-Based Restricted Stock Unit Award (the "Notice"), the Total Number of RSUs set forth in the Notice, subject to the Notice, this Performance-Based Restricted Stock Unit Award Agreement (the "Agreement") and the terms and provisions of the Company's 2017 IPO Stock Incentive Plan (the "Plan"), as amended from time to time, which are incorporated herein by reference. An RSU is a non-voting unit of measurement which is deemed solely for bookkeeping purposes to be equivalent to one outstanding Share. The RSUs are used solely as a device to determine the number of Shares to eventually be issued to Grantee if such RSUs vest. The RSUs shall not be treated as property or as a trust fund of any kind. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Agreement.

2. Settlement.

(a) On or as soon as administratively practical (and within thirty (30) days) following the applicable date of Service Condition (as defined in the Notice) vesting under the Service Vesting Schedule set forth in the Notice (a "Vesting Date"), the Company will deliver to Grantee a number of Shares (either by delivering one or more certificates for such Shares or by entering such Shares in book entry form, as determined by the Company in its discretion) equal to the number of RSUs that fully vest on the applicable Vesting Date, subject to the satisfaction of any applicable tax withholding obligations. No fractional RSUs or rights for fractional Shares shall be created pursuant to this Agreement. For the avoidance of doubt, any RSUs that do not satisfy the Performance Condition (as defined in the Notice) shall be forfeited and shall not be settled in accordance with this Section 2(a).

(b) The Company reserves the right to issue to the Grantee the cash equivalent of Shares, in part or in full satisfaction of the delivery of Shares, upon vesting of the RSUs, and to the extent applicable, references in the Agreement to Shares issuable in connection with the RSUs will include the potential issuance of its cash equivalent pursuant to such right.

3. Dividend and Voting Rights. Unless and until such time as Shares are issued in settlement of vested RSUs, the Grantee will have no ownership of the Shares allocated to the RSUs, and will have no rights to vote such Shares and no rights to dividends.

4. Transfer Restrictions. The RSUs and any interest therein may not be sold, transferred by gift, pledged, hypothecated, or otherwise transferred or disposed of in any manner other than by will or the laws of descent or distribution or court order. The terms of the RSUs shall be binding upon the executors, administrators, heirs, successors and assigns of the Grantee.

5. Termination of Continuous Service. If the Grantee's Continuous Service terminates for any reason, including death or Disability, all unvested RSUs will be forfeited to the Company, and all rights of the Grantee to such RSUs will immediately terminate without payment of any consideration to the Grantee. The Administrator shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of his or her RSU grant (including whether the Grantee may still be considered to be providing services while on a leave of absence).

6. Taxes.

(a) Tax Liability. The Grantee is ultimately liable and responsible for all taxes owed by the Grantee in connection with the RSUs, regardless of any action the Company or any Related Entity takes with respect to any tax withholding obligations that arise in connection with the RSUs. Neither the Company nor any Related Entity makes any representation or undertaking regarding the treatment of any tax withholding in connection with the grant or vesting of the RSUs or the subsequent sale of Shares issued in settlement of the RSUs. The Company and its Related Entities do not commit and are under no obligation to structure the RSUs to reduce or eliminate the Grantee's tax liability.

(b) Payment of Withholding Taxes. Prior to any event in connection with the RSUs that the Company determines may result in any tax withholding obligation, whether United States federal, state, local or non-U.S.,

including any social insurance, employment tax, payment on account or other tax-related obligation (the "Tax Withholding Obligation"), the Grantee must arrange for the satisfaction of the minimum amount of such Tax Withholding Obligation in a manner acceptable to the Company.

(i) *By Share Withholding*. Notwithstanding Section 7(c) of the Plan, if permissible under Applicable Law, the Administrator may permit the Grantee to elect to authorize the Company to withhold from those Shares otherwise issuable upon settlement of the RSUs to the Grantee the whole number of Shares sufficient to satisfy up to the maximum applicable Tax Withholding Obligation. The maximum applicable Tax Withholding Obligation is based on the applicable rates of the relevant tax authorities (for example, federal, state and local), including the Grantee's share of payroll or similar taxes, as provided in the tax law, regulations or the authority's administrative practices, not to exceed the highest statutory rate in that jurisdiction. Any elections to have Shares withheld or sold for this purpose will be made in accordance with the requirements established by the Administrator for such elections and be in writing in a form acceptable to the Administrator. Further, if permissible under Applicable Law, the Grantee hereby authorizes the Company to, upon the exercise of its sole discretion, withhold from those Shares otherwise issuable to the Grantee the whole number of Shares sufficient to satisfy the minimum applicable Tax Withholding Obligation. The Grantee acknowledges that the withheld Shares may still not be sufficient to satisfy the Grantee's minimum Tax Withholding Obligation. Accordingly, the Grantee agrees to pay to the Company or any Related Entity as soon as practicable, including through additional payroll withholding, any amount of the Tax Withholding Obligation that is not satisfied by the withholding of Shares described above.

(ii) *By Check, Wire Transfer or Other Means*. At any time not less than five (5) business days (or such fewer number of business days as determined by the Administrator) before any Tax Withholding Obligation arises (e.g., a vesting date), the Grantee may elect to satisfy the Grantee's Tax Withholding Obligation by delivering to the Company an amount that the Company determines is sufficient to satisfy the Tax Withholding Obligation by (x) wire transfer to such account as the Company may direct, (y) delivery of a certified check payable to the Company, or (z) such other means as specified from time to time by the Administrator.

Notwithstanding the foregoing, the Company or a Related Entity also may satisfy any Tax Withholding Obligation by offsetting any amounts (including, but not limited to, salary, bonus and severance payments) payable to the Grantee by the Company and/or a Related Entity. Furthermore, in the event of any determination that the Company and/or a Related Entity has failed to withhold a sum sufficient to pay all withholding taxes due in connection with the RSUs, the Grantee agrees to pay the Company and/or the Related Entity the amount of such deficiency in cash within five (5) days after receiving a written demand from the Company and/or the Related Entity to do so, whether or not the Grantee is an employee of the Company and/or the Related Entity at that time.

7. Stop-Transfer Notices. In order to ensure compliance with the restrictions on transfer set forth in this Agreement, the Notice or the Plan, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records. The Company may issue a "stop transfer" instruction if the Grantee fails to satisfy any Tax Withholding Obligations.

8. Entire Agreement: Governing Law. The Notice, the Plan and this Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. These agreements are to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of the Notice or this Agreement be determined to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

9. Construction. The captions used in the Notice and this Agreement are inserted for convenience and shall not be deemed a part of the RSU award for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

10. Administration and Interpretation. Any question or dispute regarding the administration or interpretation of the Notice, the Plan or this Agreement shall be submitted by the Grantee or by the Company to the Administrator. The resolution of such question or dispute by the Administrator shall be final and binding on all persons.

11. Venue and Waiver of Jury Trial. The parties agree that any suit, action, or proceeding arising out of or relating to the Notice, the Plan or this Agreement shall be brought in the United States District Court for Delaware (or should such court lack jurisdiction to hear such action, suit or proceeding, in a Delaware state court) and that the

parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. **THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING.** If any one or more provisions of this Section 11 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

12. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown in these instruments, or to such other address as such party may designate in writing from time to time to the other party.

13. Language. If the Grantee has received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different than the English version, the English version will control, unless otherwise prescribed by Applicable Law.

14. Nature of RSUs. In accepting the RSUs, the Grantee acknowledges and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

(b) the RSU award is voluntary and occasional and does not create any contractual or other right to receive future awards, or benefits in lieu of awards, even if awards have been awarded repeatedly in the past;

(c) all decisions with respect to future awards, if any, will be at the sole discretion of the Company;

(d) the Grantee's participation in the Plan is voluntary;

(e) the Grantee's participation in the Plan shall not create a right to any employment with the Grantee's employer and shall not interfere with the ability of the Company or the employer to terminate the Grantee's employment relationship, if any, at any time;

(f) the RSU is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any Related Entity;

(g) in the event that the Grantee is not an Employee of the Company or any Related Entity, the RSU award and the Grantee's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any Related Entity;

(h) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(i) in consideration of the RSUs, no claim or entitlement to compensation or damages shall arise from termination of the RSUs or diminution in value of the RSUs or Shares acquired upon vesting of the RSUs, resulting from termination of the Grantee's Continuous Service by the Company or any Related Entity (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the grant of the RSUs, the Grantee irrevocably releases the Company and any Related Entity from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing the Notice, the Grantee shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;

(j) in the event of (i) a failure to satisfy the Performance Goals (as defined in Exhibit A) and/or (ii) termination of the Grantee's Continuous Service (whether or not in breach of local labor laws), the Grantee's right to receive RSUs (or a portion of the RSUs corresponding to Performance Goals that were not achieved) under the Plan and to vest in such RSUs, if any, will (except as otherwise provided in the Notice or herein) terminate effective upon the earlier of (i) the date the Administrator, in its sole discretion, determines the Performance Goals have not been achieved or (ii) the date that the Grantee is no longer providing services and will not be extended by any notice period mandated under local law (e.g., providing services would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of termination of the Grantee's Continuous Service (whether

or not in breach of local labor laws), the Administrator shall have the exclusive discretion to determine when the Grantee is no longer providing services for purposes of the RSUs;

(k) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of Shares; and

(l) the Grantee is hereby advised to consult with the Grantee's own personal tax, legal and financial advisers regarding the Grantee's participation in the Plan before taking any action related to the Plan.

15. Data Privacy.

(a) *The Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Grantee's personal data as described in the Notice and this Agreement by and among, as applicable, the Grantee's employer, the Company and any Related Entity for the exclusive purpose of implementing, administering and managing the Grantee's participation in the Plan.*

(b) *The Grantee understands that the Company and the Grantee's employer may hold certain personal information about the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, date of birth, social insurance or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Awards or any other entitlement to Shares awarded, canceled, vested, unvested or outstanding in the Grantee's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").*

(c) The Grantee understands that Data will be transferred to any third party assisting the Company with the implementation, administration and management of the Plan. The Grantee understands that the recipients of the Data may be located in the Grantee's country, or elsewhere, and that the recipients' country may have different data privacy laws and protections than the Grantee's country. The Grantee understands that the Grantee may request a list with the names and addresses of any potential recipients of the Data by contacting the Grantee's local human resources representative. The Grantee authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Grantee's participation in the Plan. The Grantee understands that Data will be held only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan. The Grantee understands that the Grantee may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Grantee's local human resources representative. The Grantee understands, however, that refusal or withdrawal of consent may affect the Grantee's ability to participate in the Plan. For more information on the consequences of the Grantee's refusal to consent or withdrawal of consent, the Grantee understands that the Grantee may contact the Grantee's local human resources representative.

END OF AGREEMENT

EXHIBIT A

Exhibit 31.1

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

I, Krish S. Krishnan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Krystal Biotech, 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 Condensed 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. 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

   c. 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 8, 2023

By: /s/ Krish S. Krishnan
Krish S. Krishnan
President and Chief Executive Officer

Exhibit 31.2

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

I, Kathryn A. Romano, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Krystal Biotech, 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 Condensed 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) 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. 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

   c. 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 8, 2023

By: /s/ Kathryn A. Romano
Kathryn A. Romano
Chief Accounting Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF ACCOUNTING OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Krish S. Krishnan, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Quarterly Report on Form 10-Q for the three months ended March 31, 2023, (the "Periodic Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Krystal Biotech, Inc.

Date: May 8, 2023

By: /s/ Krish S. Krishnan
Krish S. Krishnan
President and Chief Executive Officer

I, Kathryn A. Romano, Chief Accounting Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Quarterly Report on Form 10-Q for the three months ended March 31, 2023, (the "Periodic Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of Krystal Biotech, Inc.

Date: May 8, 2023

By: /s/ Kathryn A. Romano
Kathryn A. Romano
Chief Accounting Officer