Non-consolidated Financial Results for the Three Months Ended September 30, 2014 [Japanese GAAP]

November 11, 2014

Company name: PeptiDream Inc. Tokyo Stock Exchange
Stock code: 4587 URL http://www.peptidream.com/
Representative: Kiichi Kubota, Chief Executive Officer
Inquiries: Yoshiyuki Sekine, Director of Management Administration TEL: +81-3-3485-7707
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Scheduled starting date of dividend payments: —
Supplementary briefing materials on quarterly financial results: No
Explanatory meeting on quarterly financial results: No

(Amounts of less than one million yen are rounded down)

1. Financial Results for the Three Months Ended September 30, 2014 (July 1, 2014 to September 30, 2014)

(1) Operating results (% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three Months ended September 30, 2014	141	(19.0)	(67)	-	(31)	-	(21)	-
Three Months ended September 30, 2013	174	-	15	-	12	-	9	-

	Net income per share	Diluted net income per share
	Yen	Yen
Three Months ended September 30, 2014	(1.58)	-
Three Months ended September 30, 2013	0.69	0.57

(Notes) Diluted net income per share for the three months ended September 30, 2014 is not stated as net loss was recorded for this period although there are residual shares.

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2014	5,970	5,872	98.1
As of June 30, 2014	5,999	5,863	97.7

(Reference) Equity As of September 30, 2014: 5,856 million yen
As of June 30, 2014: 5,860 million yen

2. Payment of Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year ended June 30, 2014	-	0.00	-	0.00	0.00
Fiscal Year ending June 30, 2015	-				
Fiscal Year ending June 30, 2015 (forecast)		0.00	-	0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Financial Forecasts for the Fiscal Year Ending June 30, 2015 (July 1, 2014 to June 30, 2015)

(% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	1,724	110.6	631	213.7	570	157.2	367	147.4	27.35

(Note) Revision to the forecast for financial results announced most recently: No

[Notes]

(1) Adoption of accounting policies specific to the preparation of quarterly financial statements : None

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatements

1) Changes in accounting policies due to amendment to the accounting standards, etc. : None

2) Changes in accounting policies other than 1) above : None

3) Changes in accounting estimates : None

4) Retrospective restatements : None

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	As of September 30, 2014	13,633,300 shares	As of September 30, 2013	13,433,300 shares
2) Number of treasury stock at the end of the period	As of September 30, 2014	- shares	As of September 30, 2013	- shares
3) Average number of shares during the period	Three months ended September 30, 2014	13,541,996 shares	Three months ended September 30, 2013	13,330,757 shares

* Presentation regarding the implementation status of the quarterly review procedures

These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial results, review procedures for the quarterly financial statements under the Financial Instruments and Exchange Act have not been completed.

*Explanation on the appropriate use of operating forecasts and other special instructions

Financial forecasts and other statements regarding the future presented in these materials are based on information currently available and certain assumptions deemed to be reasonable, and are not meant to be taken as commitment of the Company to achieve such results. Actual performance may differ substantially due to various factors.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

During the three months ended September 30, 2014 (from July 1, 2014 to September 30, 2014), the Company leveraged the PDPS (Peptide Discovery Platform System), its proprietary drug discovery and development platform system, and made steady progress in joint research and development activities with pharmaceutical companies both in Japan and abroad.

As for a specific example of progress in joint research and development activities, the Company agreed with Novartis to further optimize, for the late stage of non-clinical trials, nonstandard constrained/macrocyclic peptide (with the target undisclosed), which was discovered from the Collaboration and License Agreement initiated in the year of 2010 and extended in the year of 2012, and extended the original agreement in September, 2014.

As an example which demonstrates the rising reputation of the Company's PDPS and nonstandard constrained/macrocyclic peptide, U.S.-based Bristol-Myers Squibb, in August 2014 at the 248th "American Chemical Society National Meeting and Exposition," held in San Francisco in the U.S., presented the powerfulness of the Company's PDPS in producing novel nonstandard constrained/macrocyclic peptide and extremely high potential of nonstandard constrained/macrocyclic peptide against target molecules for diseases difficult to be treated, by naming molecules or nonstandard constrained/macrocyclic peptide with the weight of 500-2,000 Da "Millamolecules," using one of the lead compounds produced by joint research and development with the Company as an example.

As a result, the Company reported net sales of 141,305 thousand yen (down 33,186 thousand yen year on year), operating loss of 67,466 thousand yen (operating income of 15,638 thousand yen in the same period of the previous fiscal year), ordinary loss of 31,913 thousand yen (ordinary income of 12,823 thousand yen in the same period of the previous fiscal year) and net loss of 21,328 thousand yen (net income of 9,173 thousand yen in the same period of the previous fiscal year) for the three months ended September 30, 2014.

The Company operates in a single business segment, and thus statements for segment information are omitted.

(2) Explanation of Financial Position

1) Analysis of financial position

Total assets at the end of the first quarter ended September 30, 2014 decreased by 29,061 thousand yen from the end of the previous fiscal year to 5,970,211 thousand yen. This was mainly because accounts receivable - trade decreased by 50,846 thousand yen.

Liabilities decreased by 38,044 thousand yen from the end of the previous fiscal year to 98,023 thousand yen. This was mainly because income taxes payable and advances received decreased by 22,354 thousand yen and 14,173 thousand yen, respectively.

Net assets increased by 8,983 thousand yen from the end of the previous fiscal year to 5,872,188 thousand yen. This was mainly because capital stock, capital surplus, and subscription rights to shares increased by 8,618 thousand yen, 8,618 thousand yen, and 13,076 thousand yen, respectively, while retained earnings decreased by 21,328 thousand yen as a result of net loss.

2) Analysis of status of cash flows

Cash and cash equivalents for the three months ended September 30, 2014 increased by 117,183 thousand yen from the end of the previous fiscal year to 2,317,575 thousand yen.

Status of cash flows and the factors during the three months ended September 30, 2014 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash outflow of 9,811 thousand yen (decreased by 92,659 thousand yen year on year). This was mainly due to loss before income taxes and income taxes paid amounting to 31,913 thousand yen and 20,842 thousand yen, respectively, despite inflows such as an increase in notes and accounts receivable - trade amounting to 50,846 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash inflow of 74,411 thousand yen (cash outflow of 3,378 thousand yen in the same period of the previous fiscal year). This was due to proceeds from redemption of securities amounting to 200,000 thousand yen, while purchase of property, plant and equipment and purchase of securities amounted to 25,588 thousand yen and 100,000 thousand yen, respectively.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 29,910 thousand yen (increased by 17,690 thousand yen year on year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares and proceeds from issuance of subscription rights to shares amounting to 16,909 thousand yen and 13,000 thousand yen, respectively.

(3) Explanation of Financial Forecasts and Other Forward-looking Information

Financial forecasts remain unchanged from the forecasts for the fiscal year ending June 30, 2015 announced on August 12, 2014.

2. Summary Information (Notes)

(1) Adoption of Accounting Policies Specific to the Preparation of Quarterly Financial Statements

Not applicable.

(2) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatements

Not applicable.

3. Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Thousands of yen)

	As of June 30, 2014	As of September 30, 2014
Assets		
Current assets		
Cash and deposits	3,400,392	3,517,575
Accounts receivable - trade	182,174	131,328
Securities	2,200,000	2,100,000
Deferred tax assets	20,400	31,874
Other	31,659	18,779
Total current assets	5,834,626	5,799,557
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings, net	8,101	11,974
Tools, furniture and fixtures, net	156,405	158,550
Total property, plant and equipment	164,506	170,525
Intangible assets	140	129
Total non-current assets	164,646	170,654
Total assets	5,999,273	5,970,211
Liabilities		
Current liabilities		
Accounts payable - trade	9,080	6,589
Accounts payable - other	10,050	18,252
Accrued expenses	40,796	29,996
Income taxes payable	25,698	3,343
Advances received	43,587	29,413
Other	6,854	10,427
Total current liabilities	136,068	98,023
Total liabilities	136,068	98,023
Net assets		
Shareholders' equity		
Capital stock	2,734,254	2,742,872
Capital surplus	2,730,536	2,739,154
Retained earnings	395,404	374,076
Total shareholders' equity	5,860,196	5,856,103
Subscription rights to shares	3,009	16,085
Total net assets	5,863,205	5,872,188
Total liabilities and net assets	5,999,273	5,970,211

(2) Quarterly Statements of Income

Three months ended September 30, 2013 and 2014

(Thousands of yen)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Net sales	174,492	141,305
Cost of sales	73,463	125,553
Gross profit	101,028	15,751
Selling, general and administrative expenses	85,389	83,218
Operating income (loss)	15,638	(67,466)
Non-operating income		
Interest income	251	2,749
Foreign exchange gains	-	33,090
Other	-	114
Total non-operating income	251	35,954
Non-operating expenses		
Share issuance cost	30	90
Foreign exchange losses	3,036	-
Other	-	311
Total non-operating expenses	3,066	401
Ordinary income (loss)	12,823	(31,913)
Income (loss) before income taxes	12,823	(31,913)
Income taxes - current	(1,477)	889
Income taxes - deferred	5,126	(11,474)
Total income taxes	3,649	(10,584)
Net income (loss)	9,173	(21,328)

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Three months ended September 30, 2013	Three months ended September 30, 2014
Cash flow from operating activities		
Income (loss) before income taxes	12,823	(31,913)
Depreciation	16,887	22,006
Interest and dividend income	(251)	(2,749)
Foreign exchange losses (gains)	1,882	(22,672)
Share issuance cost	30	90
Decrease (increase) in notes and accounts receivable - trade	(6,532)	50,846
Increase (decrease) in notes and accounts payable - trade	(2,977)	(2,491)
Increase (decrease) in accounts payable - other	(27,018)	5,776
Increase (decrease) in accrued expenses	(1,764)	(10,800)
Increase (decrease) in advances received	(24,803)	(14,173)
Other, net	(28,761)	13,338
Subtotal	(60,485)	7,257
Interest and dividend income received	251	3,773
Income taxes paid	(42,235)	(20,842)
Net cash provided by (used in) operating activities	(102,470)	(9,811)
Cash flow from investing activities		
Purchase of securities	-	(100,000)
Proceeds from redemption of securities	-	200,000
Purchase of property, plant and equipment	(3,378)	(25,588)
Net cash provided by (used in) investing activities	(3,378)	74,411
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	12,220	16,909
Proceeds from issuance of subscription rights to shares	-	13,000
Net cash provided by (used in) financing activities	12,220	29,910
Effect of exchange rate change on cash and cash equivalents	(1,882)	22,672
Net increase (decrease) in cash and cash equivalents	(95,511)	117,183
Cash and cash equivalents at beginning of period	5,572,450	2,200,392
Cash and cash equivalents at end of period	5,476,939	2,317,575

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.