# Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2015 [Japanese GAAP]

August 11, 2015


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Scheduled date of Ordinary General Meeting of Shareholders: September 18, 2015
Scheduled filing date of securities report: September 18, 2015
Scheduled starting date of dividend payments: —
Supplementary briefing materials on financial results: No
Explanatory meeting on financial results: Yes

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

**1. Financial Results for the Fiscal Year Ended June 30, 2015 (July 1, 2014 to June 30, 2015)**

(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 | % |
| Fiscal Year ended June 30, 2015 | 2,474 | 202.2 | 1,391 | 590.9 | 1,496 | 574.1 | 1,004 | 576.1 |
| Fiscal Year ended June 30, 2014 | 818 | 20.7 | 201 | 25.2 | 221 | 27.5 | 148 | 8.3 |

| | Net income per share | Diluted net income per share | Return on equity | Ordinary income to total assets | Operating income to net sales |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| Fiscal Year ended June 30, 2015 | 18.36 | 15.66 | 15.7 | 21.8 | 56.2 |
| Fiscal Year ended June 30, 2014 | 2.77 | 2.32 | 2.6 | 3.7 | 24.6 |

(Reference) Equity in earnings (losses) of affiliates Fiscal Year ended June 30, 2015: - million yen
Fiscal Year ended June 30, 2014: - million yen

(Note) Based on the resolution of the Board of Directors' meeting held on June 9, 2015, the Company conducted a 4-for-1 stock split of its common stock effective July 1, 2015. Net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

(2) Financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of June 30, 2015 | 7,738 | 6,912 | 89.1 | 124.91 |
| As of June 30, 2014 | 5,999 | 5,863 | 97.7 | 109.06 |

(Reference) Equity As of June 30, 2015: 6,896 million yen
As of June 30, 2014: 5,860 million yen

(Note) Based on the resolution of the Board of Directors' meeting held on June 9, 2015, the Company conducted a 4-for-1 stock split of its common stock effective July 1, 2015. .Net assets per share has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

(3) Cash flows

| | Cash flow from operating activities | Cash flow from investing activities | Cash flow from financing activities | Balance of cash and cash equivalents |
|---|---|---|---|---|
| | Million yen | Million yen | Million yen | Million yen |
| Fiscal Year ended June 30, 2015 | 1,386 | 961 | 44 | 4,679 |
| Fiscal Year ended June 30, 2014 | 72 | (3,473) | 18 | 2,200 |

**2. Payment of Dividends**

| | Annual dividends | | | | | Total dividends (Annual) | Dividend payout ratio | Dividends to net assets |
|---|---|---|---|---|---|---|---|---|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| Fiscal Year ended June 30, 2014 | - | 0.00 | - | 0.00 | 0.00 | - | - | - |
| Fiscal Year ended June 30, 2015 | - | 0.00 | - | 0.00 | 0.00 | - | - | - |
| Fiscal Year ending June 30, 2016 (forecast) | - | 0.00 | - | 0.00 | 0.00 | | - | |

**3. Financial Forecasts for the Fiscal Year Ending June 30, 2016 (July 1, 2015 to June 30, 2016)**

(% 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 | 3,097 | 25.2 | 1,308 | (5.9) | 1,267 | (15.3) | 835 | (16.8) | 15.13 |

(Note) As business results are managed by year, only forecasts for the full year are posted.

**[Notes]**

(1) 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 |

(2) Number of shares issued (common stock)

| | | | | |
|---|---|---|---|---|
| 1) Number of shares issued at the end of the period (including treasury stock) | As of June 30, 2015 | 55,213,200 shares | As of June 30, 2014 | 53,733,200 shares |
| 2) Number of treasury stock at the end of the period | As of June 30, 2015 | - shares | As of June 30, 2014 | - shares |
| 3) Average number of shares during the period | Fiscal Year ended June 30, 2015 | 54,691,775 shares | Fiscal Year ended June 30, 2014 | 53,572,148 shares |

(Note) Based on the resolution of the Board of Directors' meeting held on June 9, 2015, the Company conducted a 4-for-1 stock split of its common stock effective July 1, 2015. Number of shares issued at the end of the period and average number of shares during the period have been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

*Presentation regarding the implementation status of the audit procedures

These financial results are outside the scope of audit procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these financial results, audit procedures for the 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.
- The Company plans to hold an explanatory meeting on financial results for institutional investors on August 21, 2015.

Index of Appendix

1. Analysis of Operating Results and Financial Position ..... 2
(1) Analysis of Operating Results ..... 2
(2) Analysis of Financial Position ..... 3
(3) Basic Policy for Profit Distribution and Dividends for the Fiscal Year under Review and the Following Fiscal Year ..... 4
(4) Business Risks ..... 4
(5) Significant Events Regarding Going Concern Assumption, etc. ..... 10
2. Management Policies ..... 11
(1) Basic Management Policy ..... 11
(2) Management Indices ..... 11
(3) Medium- to Long-term Management Strategies ..... 11
(4) Issues to be Addressed ..... 11
3. Basic Approach to Accounting Standards ..... 12
4. Financial Statements ..... 13
(1) Balance Sheets ..... 13
(2) Statements of Income ..... 15
(3) Statements of Changes in Equity ..... 16
(4) Statements of Cash Flows ..... 17
(5) Notes to Financial Statements ..... 18
(Notes regarding going concern assumption) ..... 18
(Equity in earnings and losses, etc.) ..... 18
(Segment information, etc.) ..... 18
(Per share information) ..... 18
(Significant subsequent events) ..... 19

## 1. Analysis of Operating Results and Financial Position

### (1) Analysis of Operating Results

During the fiscal year ended June 30, 2015, the Company continued to leverage its PDPS (Peptide Discovery Platform System) technology, its proprietary drug discovery and development platform system, making continued progress in joint research and development activities with pharmaceutical partners both in Japan and abroad, to which a few of the highlights are discussed below

The Company extended its original 2010 and 2012 Collaboration and License Agreement with Novartis of Switzerland (hereafter "Novartis") in December 2014, adding additional target programs to the existing collaboration and folding into the new extension a separate discovery program that had been running in parallel to the existing agreement. Novartis also exercised its rights under the 2012 License Agreement to take a non-exclusive license to the PDPS technology in April 2015. This exercise will enable Novartis to utilize the PDPS technology platform within Novartis for their own internal research and discovery programs. Novartis is now the second company (BMS in 2013) to internalize the PDPS technology for their own use.

Also in December 2014, the Company attained another Lead Compound Milestone in the discovery and development collaboration with U.S.-based Bristol-Myers Squibb (hereinafter "BMS"). This represents the third discovery programs to have reached this stage between the two companies. Additionally, the Company announced that the technology transfer of the PDPS technology to BMS (option exercised in 2013) was fully completed, and BMS was no utilizing the PDPS technology for their own internal discovery programs. Most excitingly, the Company announced in June 2015 that BMS had nominated one of the PeptiDream discovered compounds as a clinical candidate compound, and were now making preparations for taking this compound into human clinical trials. This program represents the first compound/program identified between the companies to reach this milestone and represents an important validation for the ability of the PDPS technology to identify clinical candidates.

In April 2015, the Company signed a new multi-target research and development agreement with U.S.-based Merck & Co. for the discovery and development of nonstandard constrained/macrocyclic peptides against targets identified by Merck. As a result, the Company is now partnering with a total of 10 major pharmaceutical companies in joint research and development programs, two in Japan and eight abroad.

During the fiscal year, the Company continued to accelerate its in-house product pipeline research and development. In addition to research into nonstandard constrained/macrocyclic peptides for the development of anti-influenza drugs, the Company launched two other in house programs (to be discussed in the future) and also has launched a full-fledged in-house effort (16+ programs) to develop a broad asset class of constrained peptides for use as Peptide Drug Conjugates (PDC). The Company is leveraging its partners to investigate these peptides for use in a wide variety of applications, including the targeted delivery of small molecule drugs, small molecule toxins, siRNA drugs, and for use as the homing component on targeting nanoparticles.

In order to continue to expand the Company's capabilities in drug discovery and development, , in June 2015, the Company acquired land in the area of "KING SKYFRONT," a National Strategic Special Zone in Tonomachi, Kawasaki, in Kanagawa Prefecture, for construction of new headquarters and research facilities aimed at strengthening its research and development capabilities. The Company plans to open the facility in two years, or 2017.

On August 1, 2015, the Company closed a deal for the drug discovery research business of PharmaDesign, Inc. (a business which uses bioinformatics/biomodeling technology to seek out drug discovery targets and uses rational drug design technology to identify hit/lead compounds). By incorporating the functions and personnel of PharmaDesign, which has become a driving force for bioinformatics/biomodeling technologies in Japan, and by incorporating its strengths in "bioinformatics," "molecular modeling" and "medicinal chemistry" into the Company's operations, the Company has significantly strengthened its capabilities in in-silico simulation, indispensable for optimizing discovery candidate compounds (nonstandard constrained/macrocyclic peptides) obtained through its proprietary PDPS. The Company believes that taking over this business will enable it to improve its potential for creating drug discovery candidate substances and help it rationalize costs by shortening research and development times up to production of discovery candidates.

As a result, the Company reported net sales of 2,474,499 thousand yen (up 1,655,597 thousand yen year on year), operating income of 1,391,126 thousand yen (up 1,189,764 thousand yen year on year), ordinary income of 1,496,415 thousand yen (up

1,274,423 thousand yen year on year) and net income of 1,004,164 thousand yen (up 855,651 thousand yen year on year) for the current fiscal year.

### (Forecast for the fiscal year ending June 30, 2016)

In terms of revenues, the Company expects to further develop its Alliance business, and to receive milestone payments in connection with multiple new joint research and development programs and progress of joint research and development projects. The Company also anticipates earnings from technology-licensing contracts. In terms of expenses, the Company expects to make capital investments to further enhance the efficiency of its growing research and development capabilities, and research and development investments for progressing the in-house product pipeline, including PDCs.

Consequently, forecasts of operating results for the fiscal year ending June 30, 2016 are as follows: Net sales is expected to total 3,097 million yen, (up 25.2% year on year), operating income 1,308 million yen (down 5.9% year on year), ordinary income 1,267 million yen (down 15.3% year on year), and net income 835 million yen (down 16.8% year on year).

## (2) Analysis of Financial Position

1) Status of assets, liabilities and net assets

Total assets at the end of the fiscal year under review increased by 1,739,169 thousand yen from the end of the previous fiscal year to 7,738,442 thousand yen. The main factors were increases of 2,479,227 thousand yen in cash and deposits, 164,651 thousand yen in accounts receivable - trade and 1,197,639 thousand yen in property, plant and equipment, which outweighed a decrease of 2,200,000 thousand yen in securities.

Liabilities increased by 689,942 thousand yen compared with the end of the previous fiscal year, to 826,011 thousand yen. The main factors were increases of 90,466 thousand yen in accounts payable - other, 107,289 thousand yen in accrued expenses and 483,433 thousand yen in income taxes payable.

Net assets rose 1,049,226 thousand yen from the end of the previous fiscal year to 6,912,431 thousand yen. The main factor was an increase of 1,004,164 thousand yen in retained earnings.

2) Status of cash flows

Cash and cash equivalents at the end of the fiscal year under review increased 2,479,227 thousand yen from the end of the previous fiscal year to 4,679,619 thousand yen.

Status of cash flows and the factors during the current fiscal year are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 1,386,143 thousand yen, reflecting recording of income before income taxes of 1,493,374 thousand yen for the year and other positives, which outweighed 40,200 thousand yen in income taxes paid, a 164,651 thousand yen increase in notes and accounts receivable - trade and a 28,904 thousand yen decrease in advances received.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash inflow of 961,723 thousand yen, reflecting inflows of 2,300,000 thousand yen from redemption of short-term and long-term investment securities, which outweighed outflows of 100,000 thousand yen for purchase of short-term and long-term investment securities and outflows of 1,234,536 thousand yen for purchase of property, plant and equipment.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 44,366 thousand yen, comprising inflows of 31,584 thousand yen from issuance of shares resulting from exercise of subscription rights to shares, and 12,781 thousand yen from issuance of subscription rights to shares.

(Reference) Cash flow-related indices

| | Fiscal Year ended June 30, 2011 | Fiscal Year ended June 30, 2012 | Fiscal Year ended June 30, 2013 | Fiscal Year ended June 30, 2014 | Fiscal Year ended June 30, 2015 |
|---|---|---|---|---|---|
| Equity ratio (%) | 50.0 | 79.9 | 96.1 | 97.7 | 89.1 |
| Equity ratio based on market capitalization (%) | — | — | 1,606.5 | 1,798.0 | 2,447.3 |
| Ratio of interest-bearing liabilities to cash flows (%) | — | — | — | — | — |
| Interest coverage ratio (%) | — | — | — | — | — |

Equity ratio: Shareholders' equity / total assets

Equity ratio based on market capitalization: Market capitalization of shares / total assets

Ratio of interest-bearing liabilities to cash flows: Interest-bearing liabilities / cash flows

Interest coverage ratio: Cash flows / interest expense

(Notes) 1. Market capitalization of shares is calculated by multiplying the closing share price at the end of the period by the number of shares issued at the end of the period (excluding treasury stock). It should be noted that the Company does not hold treasury stock.

2. For cash flows, operating cash flows are used.

3. Figures of equity ratio based on market capitalization for the fiscal years ended June 30, 2011 and 2012 are not stated because the Company's shares were not listed.

4. Figures of ratio of interest-bearing liabilities to cash flows and interest coverage ratio for the fiscal years ended June 30, 2011 through 2015 are not stated because the Company did not hold interest-bearing liabilities.

## (3) Basic Policy for Profit Distribution and Dividends for the Fiscal Year under Review and the Following Fiscal Year

The Company acknowledges that returning profits to shareholders is an essential management issue and intends to consider profit distribution taking into account its operating results and financial position. However, for the time being the Company is focusing on maintaining internal reserves and placing priority on securing research and development funds.

## (4) Business Risks

The following are matters that could potentially become major risk factors associated with the business development and/or other activities of the Company. For the purpose of proactive information disclosure to investors, the Company has also included risks that are not necessarily perceived to be material to the Company and risks that are less likely to materialize, as long as they are thought to be significant from the perspective of investment decisions by the investor or for better understanding the business activities of the Company. Upon recognizing the possibility of these risks, the Company has set its policy to make every effort to prevent such risks from materializing and to minimize their impact when they occur, but does not guarantee that such risks will be prevented altogether. It should also be noted that the following is by no means an exhaustive list of all possible risks facing the Company.

Forward-looking statements hereunder are based on the Company's judgment as of the release date of this document and involve inherent uncertainties, and therefore the actual results may differ.

1) Risks arising from business environment

(i) Potential of nonstandard constrained/macrocyclic peptides as pharmaceuticals

The nonstandard constrained/macrocyclic peptides of the Company includes not only the 20 L-amino acids that are used to naturally make proteins, but also D-amino acids, N-methyl amino acids, and other amino acid derivatives, etc. collectively referred to as nonstandard amino acids. This ability enables the Company to create various highly diverse

nonstandard constrained/macrocyclic peptide libraries from which nonstandard constrained/macrocyclic peptides that exhibit high affinity and specificity against the target protein, which maintain high in-vivo stability and cell membrane permeability, can be identified.

Owing to this feature, the nonstandard constrained/macrocyclic peptides of the Company are expected to represent a new therapeutic class of molecules, and such expectations have led to and continue to lead to discovery and development agreements with pharmaceutical companies.

The Peptide Discovery Platform System (PDPS) of the Company arose in 2010. Pharmaceuticals, in general, require a significant amount of development costs and time (10 years or more) from basic research until obtaining marketing authorizations, etc. It has not been long since the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology was created and thus to date, no novel drug generated from nonstandard constrained/macrocyclic peptides of the Company has been approved. (However, novel drugs generated from organic compounds incorporating nonstandard amino acids that exist in nature have been approved. For example, in 1983, Sandoz Pharmaceuticals AG of Switzerland launched an immunosuppressive drug named " Sandimmune," and this was created by a peptide (cyclosporine) with a nonstandard structure, produced by a fungus found in the soil of the Hardanger Plateau in southern Norway).

Going forward, in cases where novel drugs cannot be developed from nonstandard constrained/macrocyclic peptides of the Company, or in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot beneficially contribute to the clients' drug development efforts, the Company's business strategies and operating results may be negatively impacted.

(ii) Technology innovation

The Peptide Discovery Platform System (PDPS) of the Company incorporates a variety of technologies that are necessary for using nonstandard constrained/macrocyclic peptides as therapeutic candidates (i.e., technologies (A) to produce nonstandard constrained/macrocyclic peptides, (B) to generate/produce libraries with high diversity compared with low-molecular weight pharmaceuticals and antibody pharmaceuticals and (C) to rapidly conduct screening). The Company considers that the technologies (A) to (C) are all superior to those technologies of other companies that also discover and develop peptides as therapeutic candidates.

However, technology is always evolving, and there is always a chance that a technology superior to the PDPS of the Company will be developed, by utilizing a technology that does not conflict with the patented technology of the Company.

The Company intends to continue to actively perform research and development and to endeavor to secure intellectual property rights necessary for the PDPS technology, for the continued upgrade and evolution of the PDPS technology. However, if a technology superior to the PDPS is developed, the Company's competitive advantage will decrease and, as a result, the Company's business strategies and operating results may be negatively impacted, with more of such cases where agreements under conditions desired by the Company can no longer be entered into with the clients.

2) Risks arising from business

(i) Business specializing in nonstandard constrained/macrocyclic peptide pharmaceuticals

The Company conducts its business operations specializing in nonstandard constrained/macrocyclic peptide pharmaceuticals. Nonstandard constrained/macrocyclic peptides produced by the Peptide Discovery Platform System (PDPS) of the Company have novelty and inventiveness leading to high originality, thus the Company believes that it is unlikely that alternative technologies could be easily developed to put the existence value of the Company at risk. However, in cases where pharmaceutical companies' views change regarding the value of nonstandard constrained/macrocyclic peptides and also in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot contribute to the clients' drug development efforts, the Company's business strategies and operating results may be negatively impacted.

(ii) Conducting joint research and development with multiple pharmaceutical companies

As of the release date of this document, the Company has entered into joint research and development agreements with ten companies (two domestic, eight overseas). Each pharmaceutical company has its specific target(s) for drug discovery and development, for which the Company will prosecute by receiving proposals concerning the research and development of, but in rare cases, the target for drug discovery and development may be requested by multiple pharmaceutical companies. Whenever such cases arise, the Company has a formal process for determining which pharmaceutical company has priority. Until now, no issue with this process has occurred.

However, in cases hereafter where this kind of coordination becomes difficult, the Company will not be able to enter into new joint research and development agreements and to acquire new target proteins, and thus the Company's business strategies and operating results may be negatively impacted.

(iii) Revenue recognition

The sales category of the Company for joint research and development agreements is, in principle, composed sequentially of (A) upfront payments (technological access fees), (B) funding for research and development, (C) funding for additional research and development, (D) premiums for drug discovery and development (E) incentives for reaching preclinical and/or clinical development goals (milestones), (F) royalties on net sales, and (G) incentives for reaching sales targets.

Although (A) upfront payments (technological access fees), (B) funding for research and development, and (C) funding for additional research and development significantly rely on the operational success of the Company, for (B) and (C) in particular, project termination resulting from client's policy changes, can result in a situation where ongoing revenue cannot be recognized, as the research and development activities cease. As for (A), whose amount is often relatively larger than that of (B) and (C), such revenue is recognized at one time, which means that the operating results of the Company could be negatively impacted by (A).

(D) Premiums for drug discovery and development and (E) incentive for reaching goals significantly rely on the business progress and strategy of the client, which are sales categories that are largely out of the control of the Company.

Therefore, in cases where the client's development progress is slowed, deprioritized or delayed, or in cases where the client's development strategy is changed, etc., the Company's business strategies and operating results may be negatively impacted.

(iv) Possibility of legal disputes

The Company, during the course of conducting its business operations, in cases where it violates the rights or interests of a third party or in cases where the counterparty considers that it did, even though it actually did not, legal disputes such as lawsuits for damages, etc. may occur.

As of the release date of this document, no legal dispute has occurred nor has any formal litigation initiated, however, a foreign bio-venture is arguing that the Company's business conflicts with the foreign company's patent rights, and thus a legal dispute with the bio-venture may occur in the future. The possibility that the Company might preemptively take legal action toward the invalidation of the patent right(s) of the foreign bio-venture in question remains possible. In the future, when a legal dispute occurs between a third party and the Company, dispute resolution may require certain resources in addition to time and money and the Company can also be exposed to reputation risks resulting from the legal dispute, regardless of the final outcome. In such cases, the Company's business strategies and operating results may be negatively impacted.

In the course of future business operations, conflicts with patent rights, etc. of other companies may limit the Company's business, and in such cases, the Company's business strategies and operating results may be negatively impacted.

Furthermore, there exist no examples of the Company's nonstandard constrained/macrocyclic peptide pharmaceuticals researched and developed jointly by the Company and a pharmaceutical company commercially launched as

pharmaceuticals to date. Therefore, in the unlikely event that the pharmaceutical researched and developed jointly by the Company causes unforeseen health problems, the negative image/reputation may adversely affect the reliability of the Company and its Peptide Discovery Platform System (PDPS) and thus the Company's business strategies and operating results may be negatively impacted.

(v) Material business agreements

As for agreements considered to be important or material to the Company's business operations, in cases where such agreements are terminated or in cases where changes are made to the counterparty's strategic plans, the Company's business strategies and operating results may be negatively impacted.

Further, revenue/funding related to joint research and development agreements (corresponding to or represented as sales for the Company) are, in principle, received as advances to the Company, which in turn is not obligated to return the money even in cases of early termination of the agreements. In exchange for this benefit, the counterparty holds the right to terminate the agreement at its discretion.

(vi) Dependence on counterparties of joint research and development agreements

Revenue in the Alliance business of the Company is mostly from counterparties of joint research and development agreements (clients). Going forward, in cases where the joint research and development for novel target molecules are not commenced with the clients or in cases where results of the joint research and development do not meet the criteria required by the clients, the Company's business strategies and operating results may be negatively impacted.

In addition, for lead compounds licensed out by the Company, the client conducts the clinical trials and applies for regulatory approval and thus their progress and results significantly affect the Company's business strategies and operating results. Although the Company will support the client even after licensing out, clinical trials and applications for approval should be carried out by the client and those are beyond the control of the Company. Therefore, the possibility that the progress of clinical trials and/or applications for regulatory approval might be delayed due to reasons unexpected by the Company and that clinical trials and applications for approval might be terminated for various reasons, exists.

Furthermore, marketing plans after obtaining approval for manufacturing and sale rest solely with the clients, and thus there are possibilities such that marketing plan targets cannot be achieved due to factors such as changes in the clients' management policies or marketing plans and deterioration in the business environment.

(vii) Product pipeline of the Company

The Company is promoting research and development of its own in house product pipeline utilizing the characteristics of nonstandard constrained/macrocyclic peptides.

As things stand, the Company takes a two-pronged approach to development: Use of nonstandard constrained/macrocyclic peptides as pharmaceuticals, and development of PDC for use in combination with other drugs, leveraging the excellent selectivity of nonstandard constrained/macrocyclic peptides.

With regard to its in-house product pipeline, at the moment the Company is at the basic research stage. Given smooth progress in research and development, pre-clinical trials will be launched, and the Company may find itself incurring significant development costs. But if progress in research and development of the product pipeline is not smooth, there is a risk of losing certain future options for industrialization.

3) Intellectual property rights

(i) Acquisition of and application for patents

The Company engages in various inventions and patent rights in the course of its business, some of which have already been granted to the Company, the University of Tokyo or the State University of New York, while others are at various stages of the patent process.

However, it is possible that not all of the pending applications will be granted. In addition, even after receiving grant of

said patent rights, there remains the possibility that a legal dispute concerning the patent right might arise, resulting in some adverse effect to the right implemented by the Company and other possibilities that the technology included in the patent right held by the Company might become obsolete due to emergence of a technology superior to the patent right held by the Company. When such a situation occurs, the Company's business strategies and operating results may be negatively impacted.

In addition, the Company has obtained, through an agreement, the exclusive license, with the right to sublicense to a third party, with regard to various inventions or patent rights which the University of Tokyo or the State University of New York is the applicant. In such cases where the contents of the said agreement are subject to alterations or the agreement is terminated due to expiration or cancellation, etc., the Company's business strategies and operating results may be negatively impacted.

(ii) Internal assignment of employee inventions

When the Company receives a right to obtain a patent from an officer or employee, etc. who is the inventor of an invention, the Company will pay "reasonable consideration" that is provided for in the Patent Act. The Company has established rules for its handling in the internal rules, etc. and no disputes have occurred between the inventors and the Company. However, if issues such as payment claims for reasonable consideration arise in handling employee inventions, the Company's business strategies and operating results may be negatively impacted.

4) Risks related to the pharmaceutical research and development business

(i) Uncertainties in pharmaceutical development

Pharmaceutical development in general, not only requires a considerable amount of research and development investment and time, but also has a notably low success rate compared with other industries. Even for compounds considered to be promising at the early stages of research and development, research and development can fall behind schedule due to reasons such that useful effects are not discovered in the course of pre-clinical studies and clinical trials, leading to extension or cancellation of the development. When the development is extended, additional funding may be required and the remaining patent life will be shortened, affecting the recovery of funds invested. In addition, when the development is cancelled, the funds invested in the research and development may not be recovered.

(ii) Risks related to occurrence of adverse drug reactions

Pharmaceuticals can cause unexpected adverse drug reactions starting from the clinical trial stage to post-marketing. When such unexpected adverse drug reactions occur, claim litigation and loss of creditworthiness, etc. are all possible, to which the Company's business strategies and operating results may be negatively impacted.

(iii) Regulations concerning pharmaceutical affairs including the Pharmaceutical Affairs Act

The pharmaceutical industry is subject to various regulations including the Pharmaceutical Affairs Act of each country and other related laws and regulations regarding business activities of research, development, manufacturing and sales.

The product pipeline of the Company is now at the discovery and development, with no product yet having been approved for sale by the Ministry of Health, Labour and Welfare of Japan, U.S. Food and Drug Administration (FDA) and European Medicines Agency (EMA). However, the Company intends to apply for regulatory approval for manufacturing and sales of pharmaceuticals pursuant to various regulations of the Pharmaceutical Affairs Act of each country and to obtain such approval in the future.

Therefore, the Company is required to prepare an internal system that meets and adheres to the regulations from the various regulatory entities mentioned above. Moreover, the Pharmaceutical Affairs Act of each country and other related laws and regulations are subject to change from time to time, and it is possible that these changes can affect the class of peptides Company is developing in either a positive or negative way, and that further improvement and amendment of the internal system might become necessary.

Compliance with such regulations shall affect the Company's business strategies and operating results.

(iv) Product liability

Development and manufacturing of pharmaceuticals are subject to the underlying risks of product liability. If any developed pharmaceutical causes adverse health issues or unintended side effects are found, whether in the course of clinical trials, manufacturing, operating or sales, in the future, the Company shall bear product liability and thus the Company's business strategies and operating results may be negatively impacted.

In addition, the negative image resulting from the product liability compensation claim can adversely affect the credibility of the Company and its pharmaceuticals, and thus the Company's business strategies and operating results may be negatively impacted.

5) Risks associated with human resources and the organization

(i) Dependence on specific human resources

Kiichi Kubota, Chief Executive Officer of the Company, plays a vital role in formulating the Company's business strategies as well as in the promotion of research and development, and business development. Additionally, Hiroaki Suga, Outside Director and a leading expert in nonstandard constrained/macrocyclic peptide drug discovery, and Patrick C. Reid, Managing Director and Chief Scientific Officer, also play significant roles in the decision-making and business promotion of the Company.

The Company has been making efforts to reinforce the management system so as not to become overly dependent on these Directors. However, the Company for the time being is expected to remain heavily dependent on these Directors. Under such circumstances, should a situation arise in which the Directors' involvement in the Company's business becomes compromised for any reason, the Company's business strategies and operating results may be negatively impacted.

(ii) Risks from being a small organization

The Company is a small organization comprising seven officers (four Directors and three Statutory Auditors) and 43 employees (as of June 30, 2015) with an internal management system commensurate with the Company's size. While the Company upholds the policy of augmenting employees as necessary for operations and reinforcing its internal system, the Company's business strategies and operating results may be negatively impacted, should an outflow of human resources occur and the Company becomes incapable of replacing necessary personnel.

(iii) Securing human resources

Although the Company, at the present time, has no plans for any sudden increases in the number of employees, it believes that securing superior human resources with expert knowledge and experience in the research and development field is indispensable for elevating its drug discovery platform technology and advancing its drug discovery research and development.

Should the Company encounter any obstacles in securing its human resources as planned, or lose any of its superior human resources, the Company's business strategies and operating results may be negatively impacted.

6) Other risks

(i) Being a relatively young company

The Company, established in July 2006 and being a relatively young company, does not have sufficient financial data to conduct a comparison of its performance from period to period. Therefore, the operating results and financial position of prior periods alone do not cover the period required to provide sufficient materials on which to make decisions regarding the Company's future performance.

Additionally, since the Company commenced its Alliance business in the fifth fiscal year (the fiscal year that ended on June 30, 2011), nonstandard constrained/macrocyclic peptide pharmaceuticals have yet to reach the market launch phase.

(ii) Dilution of the Company's stock value due to the exercise of stock acquisition rights

The Company has granted stock acquisition rights to its officers, employees and business partners, etc. Should such stock acquisition rights be exercised, the Company's number of shares outstanding would increase, and the value of the shares held by existing shareholders and the ratio of voting rights may become diluted. As of June 30, 2015, the number of dilutive shares to be increased by the exercisable subscription rights to shares was 2,248,000 shares, which is equivalent to 14.01% of the aggregate number of shares issued and dilutive shares.

(iii) Dividend policy

The Company recognizes returning profits to shareholders through dividends as one of its important management tasks.

Once steady predictable revenues have been attained, and enough revenue exists to cover the costs of research and development, upon comprehensively taking into account the necessity of enhancing internal reserves in preparation for future research and development activities, the Company will consider the profit distribution to its shareholders.

(iv) Information security

The Company's business involves receiving information on targeted proteins from client pharmaceutical companies. For this reason, the Company makes every effort to prevent the leakage of corporate information by requiring its employees to sign confidentiality agreements relating to corporate information including customer information.

However, should a leak of corporate information including customer information occur, the Company may face a loss of public confidence and the Company's businesses, etc. may be negatively impacted.

(v) Fluctuation of foreign exchange rates

Due to the large number of overseas pharmaceutical companies among the Company's clients, most of its sales are denominated in foreign currencies. However, the Company does not engage in forward exchange contracts and other means to hedge against exchange risks. Therefore, should fluctuations in foreign exchange rates occur, the Company's operating results and financial position may be negatively impacted.

(vi) Occurrence of natural disasters, etc.

The Company's head office and laboratory are located in Meguro-ku, Tokyo and all facilities and personnel related to its business activities and research and development activities are concentrated at this location. Therefore, should an unforeseen situation occur in the vicinity of this current location, such as a natural disaster including earthquakes and eruptions, a massive accident or terrorist attack, destroying the Company's facilities and suspending the supply of infrastructure, the Company's business strategies and operating results may be negatively impacted.

(vii) Harmful rumors

Should negative rumors about the Company, or the Company's related parties or business partners be spread by media coverage or be posted on the Internet, public confidence of the Company may be affected, regardless of whether there was any truth in the rumors. Should negative rumors about the Company, or the Company's related parties or business partners be spread, the credibility of the Company may be adversely affected due to the negative image, and the Company's financial position and operating results may be negatively impacted.

## (5) Significant Events Regarding Going Concern Assumption, etc.

Not applicable.

## 2. Management Policies

### (1) Basic Management Policy

The Company's basic management policy is to leverage its proprietary PDPS (Peptide Discovery Platform System) to discover and develop nonstandard constrained/macrocyclic peptide pharmaceuticals in order to address unmet medical needs (medical needs for which there are no effective treatments) and to improve the quality of life of patients worldwide. To this end, the Company will contribute to the creation of a market for "nonstandard constrained/macrocyclic peptide pharmaceuticals" as a third major market following "low-molecular weight pharmaceuticals" and "antibody pharmaceuticals," and contribute to the progress of medicine around the world.

### (2) Management Indices

The Company promotes the research and development of nonstandard constrained/macrocyclic peptide pharmaceuticals and expects to continue making investments consisting mainly of research and development expenses until the time the Company's products are launched on the market. In response to these expenses, the Company intends to stabilize its business management and promote its business development by securing revenues from its Alliance business.

### (3) Medium- to Long-term Management Strategies

The Company, as a technology-oriented company, focuses on acquiring intellectual property and developing its patent portfolio, and has formed proactive intellectual property and patent strategies. However, as constant advances in technological innovation are being made, the Company intends to actively monitor the latest trends in state-of-the-art technology while at the same time develop reasonable yet timely strategies.

On the other hand, research and development associated with drug discovery requires significant amount of time and substantial development funds. The Company, in an effort to mitigate these risks, has been promoting the Alliance business as a pillar of its business portfolio. Nevertheless, business costs are expected to increase in conjunction with an increase in research and development costs associated with the full-scale development of the Company's proprietary in house pipeline. The Company intends to build a management structure that will enable the Company to withstand such cost increases.

### (4) Issues to be Addressed

The Company leverages its proprietary PDPS (Peptide Discovery Platform System) to conduct joint research and development agreements with pharmaceutical companies both in Japan and abroad for the purpose of conducting development of potential drug candidates that are expected to rival and compete with low-molecular weight pharmaceuticals and antibody pharmaceuticals. The Company recognizes the following as issues that need to be addressed in order to sustain growth as a going concern.

(Issues associated with sales activities)

The Company has built relationships (joint research and development systems) that are mutually amicable and economically beneficial with pharmaceutical companies both in Japan and abroad, and currently, a high proportion of the Company's joint business is with overseas companies. The Company believes that in light of its corporate philosophy of "Contributing to the discovery of world-class drugs from Japan," it will need to and/or must proactively develop stronger relationships with more Japanese pharmaceutical companies.

(Issues associated with research and development activities)

The Company believes its PDPS at the moment has huge technological advantages. To continue to uphold the superiority of this in-house technology, the Company is committed to strengthening its in-house research and development system while undertaking joint research with pharmaceutical companies and research institutions in Japan and overseas.

(Issues associated with internal management and controls)

The Company recognizes the reinforcement of its corporate governance as a major issue that needs to be addressed in order to develop its corporate structure as a going concern. The Company is aware that enhancement of the efficiency, soundness and transparency of management, and the long-term, stable and continuous improvement of its share value will be indispensable in winning the trust of each stakeholder, including its shareholders. The Company will, therefore, make every effort to develop an organization equipped with agility and company-level efficiency while keeping in mind the adequacy of business execution, and the efficiency and efficacy of its management functions.

## 3. Basic Approach to Accounting Standards

To facilitate comparison of financial data between different periods and different companies, the Company policy at the moment is to prepare financial statements based on Japanese GAAP.

While considering domestic and overseas needs, the Company intends to adopt the IFRS (International Financial Reporting Standards) when appropriate.

4. Financial Statements

(1) Balance Sheets

(Thousands of yen)

| | As of June 30, 2014 | As of June 30, 2015 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 3,400,392 | 5,879,619 |
| Accounts receivable - trade | 182,174 | 346,826 |
| Securities | 2,200,000 | - |
| Prepaid expenses | 7,144 | 35,824 |
| Deferred tax assets | 20,400 | 45,514 |
| Other | 24,515 | 55,924 |
| Total current assets | 5,834,626 | 6,363,709 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Facilities attached to buildings | 9,708 | 24,203 |
| Accumulated depreciation | (1,607) | (4,192) |
| Facilities attached to buildings, net | 8,101 | 20,011 |
| Tools, furniture and fixtures | 339,321 | 608,369 |
| Accumulated depreciation | (182,916) | (266,234) |
| Tools, furniture and fixtures, net | 156,405 | 342,134 |
| Land | - | 1,000,000 |
| Total property, plant and equipment | 164,506 | 1,362,146 |
| Intangible assets | | |
| Software | 140 | 3,337 |
| Total intangible assets | 140 | 3,337 |
| Investments and other assets | | |
| Long-term prepaid expenses | - | 8,014 |
| Deferred tax assets | - | 1,235 |
| Total investments and other assets | - | 9,249 |
| Total non-current assets | 164,646 | 1,374,732 |
| Total assets | 5,999,273 | 7,738,442 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 9,080 | 16,012 |
| Accounts payable - other | 10,050 | 100,517 |
| Accrued expenses | 40,796 | 148,086 |
| Income taxes payable | 25,698 | 509,132 |
| Advances received | 43,587 | 14,682 |
| Deposits received | 6,854 | 37,580 |
| Total current liabilities | 136,068 | 826,011 |
| Total liabilities | 136,068 | 826,011 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 2,734,254 | 2,750,336 |
| Capital surplus | | |
| Legal capital surplus | 2,730,536 | 2,746,618 |
| Total capital surplus | 2,730,536 | 2,746,618 |
| Retained earnings | | |

(Thousands of yen)

| | As of June 30, 2014 | As of June 30, 2015 |
|---|---|---|
| Other retained earnings | | |
| Retained earnings brought forward | 395,404 | 1,399,569 |
| Total retained earnings | 395,404 | 1,399,569 |
| Total shareholders' equity | 5,860,196 | 6,896,523 |
| Subscription rights to shares | 3,009 | 15,908 |
| Total net assets | 5,863,205 | 6,912,431 |
| Total liabilities and net assets | 5,999,273 | 7,738,442 |

(2) Statements of Income

(Thousands of yen)

| | Fiscal year ended June 30, 2014 | Fiscal year ended June 30, 2015 |
|---|---|---|
| Net sales | 818,901 | 2,474,499 |
| Cost of sales | 314,763 | 721,639 |
| Gross profit | 504,137 | 1,752,859 |
| Selling, general and administrative expenses | 302,775 | 361,733 |
| Operating income | 201,362 | 1,391,126 |
| Non-operating income | | |
| Interest income | 6,409 | 6,154 |
| Foreign exchange gains | 13,964 | 99,630 |
| Other | 345 | 339 |
| Total non-operating income | 20,719 | 106,123 |
| Non-operating expenses | | |
| Share issuance cost | 90 | 165 |
| Issuance cost of subscription rights to shares | - | 530 |
| Other | - | 139 |
| Total non-operating expenses | 90 | 834 |
| Ordinary income | 221,992 | 1,496,415 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | - | 3,041 |
| Total extraordinary losses | - | 3,041 |
| Income before income taxes | 221,992 | 1,493,374 |
| Income taxes - current | 53,820 | 515,558 |
| Income taxes - deferred | 19,658 | (26,348) |
| Total income taxes | 73,479 | 489,210 |
| Net income | 148,512 | 1,004,164 |

## (3) Statements of Changes in Equity

Fiscal year ended June 30, 2014

(Thousands of yen)

| | Shareholders' equity | | | | | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | Retained earnings | | Total shareholders' equity | | |
| | | Legal capital surplus | Total capital surplus | Other retained earnings: Retained earnings brought forward | Total retained earnings | | | |
| Balance at the beginning of current period | 2,725,000 | 2,721,282 | 2,721,282 | 246,891 | 246,891 | 5,693,174 | 3,068 | 5,696,242 |
| Changes of items during period | | | | | | | | |
| Issuance of new shares | 9,254 | 9,254 | 9,254 | | | 18,509 | | 18,509 |
| Net income | | | | 148,512 | 148,512 | 148,512 | | 148,512 |
| Net changes of items other than shareholders' equity | | | | | | | (59) | (59) |
| Total changes of items during period | 9,254 | 9,254 | 9,254 | 148,512 | 148,512 | 167,021 | (59) | 166,962 |
| Balance at the end of current period | 2,734,254 | 2,730,536 | 2,730,536 | 395,404 | 395,404 | 5,860,196 | 3,009 | 5,863,205 |

Fiscal year ended June 30, 2015

(Thousands of yen)

| | Shareholders' equity | | | | | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | Retained earnings | | Total shareholders' equity | | |
| | | Legal capital surplus | Total capital surplus | Other retained earnings: Retained earnings brought forward | Total retained earnings | | | |
| Balance at the beginning of current period | 2,734,254 | 2,730,536 | 2,730,536 | 395,404 | 395,404 | 5,860,196 | 3,009 | 5,863,205 |
| Changes of items during period | | | | | | | | |
| Issuance of new shares | 16,081 | 16,081 | 16,081 | | | 32,163 | | 32,163 |
| Net income | | | | 1,004,164 | 1,004,164 | 1,004,164 | | 1,004,164 |
| Net changes of items other than shareholders' equity | | | | | | | 12,899 | 12,899 |
| Total changes of items during period | 16,081 | 16,081 | 16,081 | 1,004,164 | 1,004,164 | 1,036,327 | 12,899 | 1,049,226 |
| Balance at the end of current period | 2,750,336 | 2,746,618 | 2,746,618 | 1,399,569 | 1,399,569 | 6,896,523 | 15,908 | 6,912,431 |

(4) Statements of Cash Flows

(Thousands of yen)

| | Fiscal year ended June 30, 2014 | Fiscal year ended June 30, 2015 |
|---|---|---|
| Cash flow from operating activities | | |
| Income before income taxes | 221,992 | 1,493,374 |
| Depreciation | 73,742 | 103,064 |
| Interest and dividend income | (6,409) | (6,154) |
| Foreign exchange losses (gains) | (10,550) | (86,994) |
| Share issuance cost | 90 | 165 |
| Loss on retirement of non-current assets | - | 3,041 |
| Decrease (increase) in notes and accounts receivable - trade | (35,372) | (164,651) |
| Decrease (increase) in prepaid expenses | (5,879) | (28,679) |
| Increase (decrease) in notes and accounts payable - trade | 1,084 | 6,931 |
| Increase (decrease) in accounts payable - other | (39,111) | 21,800 |
| Increase (decrease) in accrued expenses | 13,088 | 107,289 |
| Increase (decrease) in accrued consumption taxes | (10,692) | - |
| Increase (decrease) in advances received | (23,816) | (28,904) |
| Increase (decrease) in deposits received | (4,034) | 30,725 |
| Other, net | (28,739) | (33,696) |
| Subtotal | 145,390 | 1,417,311 |
| Interest and dividend income received | 3,293 | 9,031 |
| Income taxes paid | (76,510) | (40,200) |
| Net cash provided by (used in) operating activities | 72,174 | 1,386,143 |
| Cash flow from investing activities | | |
| Decrease (increase) in time deposits | (1,200,000) | - |
| Purchase of short-term and long-term investment securities | (2,400,000) | (100,000) |
| Proceeds from redemption of short-term and long-term investment securities | 200,000 | 2,300,000 |
| Purchase of property, plant and equipment | (73,143) | (1,234,536) |
| Purchase of intangible assets | - | (3,740) |
| Net cash provided by (used in) investing activities | (3,473,143) | 961,723 |
| Cash flow from financing activities | | |
| Proceeds from issuance of subscription rights to shares | - | 12,781 |
| Proceeds from issuance of shares resulting from exercise of subscription rights to shares | 18,360 | 31,584 |
| Net cash provided by (used in) financing activities | 18,360 | 44,366 |
| Effect of exchange rate change on cash and cash equivalents | 10,550 | 86,994 |
| Net increase (decrease) in cash and cash equivalents | (3,372,058) | 2,479,227 |
| Cash and cash equivalents at beginning of period | 5,572,450 | 2,200,392 |
| Cash and cash equivalents at end of period | 2,200,392 | 4,679,619 |

## (5) Notes to Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Equity in earnings and losses, etc.)

Not applicable.

(Segment information, etc.)

[Segment information]

The Company operates in a single business segment, the Alliance business segment. As such, statements for segment information are omitted because of immateriality.

(Per share information)

| | Fiscal year ended June 30, 2014 | Fiscal year ended June 30, 2015 |
|---|---|---|
| Net assets per share | 109.06 yen | 124.91yen |
| Net income per share | 2.77yen | 18.36yen |
| Diluted net income per share | 2.32yen | 15.66yen |

(Notes) 1. Based on the resolution of the Board of Directors' meeting held on June 9, 2015, the Company conducted a 4-for-1 stock split of its common stock effective July 1, 2015. Net assets per share, net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

2. Net income per share is calculated based on the following basis:

| Items | Fiscal year ended June 30, 2014 | Fiscal year ended June 30, 2015 |
|---|---|---|
| Net income per share | | |
| Net income (thousands of yen) | 148,512 | 1,004,164 |
| Net income not attributable to common shareholders (thousands of yen) | — | — |
| Net income related to common stock (thousands of yen) | 148,512 | 1,004,164 |
| Average number of common stock during the period (shares) | 53,572,148 | 54,691,775 |
| Diluted net income per share | | |
| Adjustments for net income (thousands of yen) | — | — |
| Number of increase of common stock (shares) (Subscription rights to shares) | 10,540,160 (10,540,160) | 9,431,937 (9,431,937) |
| Dilutive shares that do not have a diluting effect and thus were not included in the calculation of diluted net income per share | — | Subscription rights to shares of 1 unit(1 unit comprises 2,000 shares) |

3. Net assets per share is calculated based on the following basis:

| Items | As of June 30, 2014 | As of June 30, 2015 |
|---|---|---|
| Total net assets (thousands of yen) | 5,863,205 | 6,912,431 |
| Amounts deducted from total net assets (thousands of yen) | 3,009 | 15,908 |
| (Subscription rights to shares) (thousands of yen) | (3,009) | (15,908) |
| Amounts of net assets related to common stock at the end of the period (thousands of yen) | 5,860,196 | 6,896,523 |
| Number of common stock at the end of the period used for the calculation of net assets per share (shares) | 53,733,200 | 55,213,200 |

## (Significant subsequent events)

## (Business combination through acquisition)

Based on the resolution of the Board of Directors' meeting held on June 19, 2015, on August 1, 2015, the Company took over the drug discovery research business and contract research business of PharmaDesign, Inc. in their entirety.

1. Overview of the business combination

(1) Name of the other company and businesses to be acquired

Name of the other company: PharmaDesign, Inc.

Details of business to be acquired Drug discovery research and contract research businesses

(2) Purpose of the transfer

By taking over the drug discovery research and contract research businesses of PharmaDesign, Inc., the Company aims to strengthen its capabilities in in-silico simulation, indispensable for optimizing discovery candidate compounds (nonstandard constrained/macrocyclic peptides) obtained through its proprietary PDPS, and creating systems in-house. In this way, the Company expects to be able to improve its potential for creating drug discovery candidate substances, and contribute to rationalizing costs by shortening research and development times up to production of discovery candidates.

(3) Date of business combination

August 1, 2015

(4) Legal form for business combination

Transfer of business for cash consideration

(5) Name of the Company after business combination

No change

(6) Basis for decision of the acquiring company

Acquisition of the business by transfer for cash consideration

2. Acquisition cost and details of the acquired businesses

| | |
|---|---|
| Acquisition consideration (cash) | 105,000 thousand yen |
| Acquisition cost | 105,000 thousand yen |

3. Details and amounts of significant expenses associated with the acquisition

Remuneration and commissions etc. for advisors etc.: 9,058 thousand yen

Please note that this is a tentative, partially unconfirmed sum.

4. Goodwill amount and reason therefor, and amortization method and period

(1) Amount of goodwill

101,135 thousand yen

(2) Reason for goodwill

Expectation of future excess earnings capability through development of these businesses

(3) Amortization method and period

Straight-line method over five years

5. Totals and details of assets and liabilities received on the day of the business combination

| | |
|---|---|
| Current assets | 3,864 thousand yen |
| Total assets | 3,864 thousand yen |

## (Stock split)

Based on the resolution of the Board of Directors' meeting on June 9, 2015, the Company issued new shares through a stock

split. The details of the stock split are as follows.

1. Purpose of the stock split

The Company aims to increase the liquidity of its stock by reducing the basic investment unit price for the Company shares.

2. Overview of the stock split

(1) Method of stock split

Each shareholder recorded on the Company's shareholder register as of June 30, 2015 received three (3) additional shares of the Company's stock for each share held.

(2) The increase in the number of shares due to the stock split

| | |
|---|---|
| 1) Total number of shares issued before the stock split | 13,803,300 shares |
| 2) Increase in number of shares due to the stock split | 41,409,900 shares |
| 3) Total number of issued shares after the stock split | 55,213,200 shares |
| 4) Total number of authorized shares after the stock split | 171,200,000 shares |

(3) Effective date: July 1, 2015

3. Impact on per share information

The impact of the stock split is contained in (Per share information).