Non-consolidated Financial Results for the Three Months Ended September 30, 2015 [Japanese GAAP]

November 10, 2015

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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, 2015 (July 1, 2015 to September 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	%
Three Months ended September 30, 2015	389	175.4	75	-	57	-	37	-
Three Months ended September 30, 2014	141	(19.0)	(67)	-	(31)	-	(21)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Three Months ended September 30, 2015	0.68	(0.58)
Three Months ended September 30, 2014	(0.39)	-

(Notes) 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.

Diluted net income per share for the three months ended September 30, 2015 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, 2015	7,113	6,951	97.5
As of June 30, 2015	7,738	6,912	89.1

(Reference) Equity As of September 30, 2015: 6,935 million yen
As of June 30, 2015: 6,896 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, 2015	-	0.00	-	0.00	0.00
Fiscal Year ending June 30, 2016	-				
Fiscal Year ending June 30, 2016 (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, 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) 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. : Yes

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

3) Changes in accounting estimates : None

4) Retrospective restatements : None

(Note) For details, please refer to "2. Summary Information (Notes) (2) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatements" on page 4 of the Appendix.

(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, 2015	55,261,200 shares	As of September 30, 2014	55,213,200 shares
2) Number of treasury stock at the end of the period	As of September 30, 2015	- shares	As of September 30, 2014	- shares
3) Average number of shares during the period	Three months ended September 30, 2015	55,257,548 shares	Three months ended September 30, 2014	54,167,984 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, 2015 (from July 1, 2015 to September 30, 2015), the Company continued to leverage the PDPS (Peptide Discovery Platform System) technology, its proprietary drug discovery and development platform system, and continued to make steady progress in joint research and development activities with pharmaceutical companies both in Japan and abroad.

On September 14, 2015, the Company signed a discovery and optimization agreement with France-based Sanofi S.A. for the identification of nonstandard constrained/macrocyclic peptides against multiple targets of interest to Sanofi. Additionally, on September 28, 2015, the Company also signed a multi-target discovery and optimization agreement with Teijin Pharma, Ltd.. With these new deal signing, the Company now discovery deals with three major pharmaceutical companies in Japan and nine major pharmaceutical companies abroad. In August 2015, the Company completed the internalization of PharmaDesign, Inc. and strengthened its drug discovery platform technology by incorporating the full-scale functions ("optimization functions") of "bioinformatics," "molecular modeling," and "medicinal chemistry" into the Company's operations. The optimization functions enable quick search and optimization of discovery candidate compounds (lead compounds), in combination with the Company's Peptide Discovery Platform System ("PDPS"), establishing a system to enable research and development with greater efficiency.

Potentially of greater importance, the Company has made significant advances, both internally and in collaboration with various partners, in turning nonstandard constrained/macrocyclic peptide hits into small molecule therapeutics. The Company's PDPS technology is a once-in-a-generation hit finding platform, identifying novel epitopes not found by classic hit finding platforms. Because of this, the Company is expanding its capabilities to turn those constrained/macrocyclic peptide hits into either constrained/macrocylic peptide clinical candidates or into small molecule clinical candidates. The Company is no longer solely a peptide drug company, and is now set to more fully leverage the power of the PDPS technology.

Furthermore, the Company continues to make rapid and exciting progress in the area of peptide drug conjugates, both internally and in collaboration, (Peptide Drug Conjugate, or "PDC") and expects these programs to contribute significantly to the Company's pipeline in the future.

As a result, the Company reported net sales of 389,205 thousand yen (increased 247,899 thousand yen year on year), operating income of 75,517 thousand yen (operating loss of 67,466 thousand yen in the same period of the previous fiscal year), ordinary income of 57,976 thousand yen (ordinary loss of 31,913 thousand yen in the same period of the previous fiscal year) and net income of 37,550 thousand yen (net loss of 21,328 thousand yen in the same period of the previous fiscal year) for the three months ended September 30, 2015.

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, 2015 decreased by 625,023 thousand yen from the end of the previous fiscal year to 7,113,418 thousand yen. This was mainly because cash and deposits - trade decreased by 851,937 thousand yen.

Liabilities decreased by 663,774 thousand yen from the end of the previous fiscal year to 162,236 thousand yen. This was mainly because income taxes payable and accrued expenses decreased by 504,120 thousand yen and 102,956 thousand yen, respectively.

Net assets increased by 38,750 thousand yen from the end of the previous fiscal year to 6,951,181 thousand yen. This was mainly because retained earnings, capital stock, and capital surplus increased by 37,550 thousand yen, 600 thousand yen, and 600 thousand yen, respectively.

2) Analysis of status of cash flows

Cash and cash equivalents for the three months ended September 30, 2015 decreased by 851,937 thousand yen from the end of the previous fiscal year to 3,827,682 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 561,698 thousand yen (a 551,886 thousand yen increase in cash outflow from the same quarter of the previous fiscal year). This was mainly due to income taxes paid amounting to 494,971 thousand yen and a 102,956 thousand yen decrease in accrued expenses, despite the recording of income before income taxes of 57,976 thousand yen and a 48,395 thousand yen increase in advances received.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 274,740 thousand yen (a cash inflow of 74,411 thousand yen in the same quarter of the previous fiscal year), reflecting factors such as outflows of 169,472 thousand yen for purchase of property, plant and equipment and 105,000 thousand yen for payments for transfer of business.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 1,200 thousand yen (decreased by 28,710 thousand yen year on year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 1,200 thousand yen.

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

Financial forecasts remain unchanged from the forecasts for the fiscal year ending June 30, 2016 announced on August 11, 2015.

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

(Changes in Accounting Standard for Business Combinations, etc.)

Effective from the first quarter of the fiscal year ending June 30, 2016, the Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013; hereinafter the “Business Combination Accounting Standard”) and the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013; hereinafter the “Business Divestiture Accounting Standard”), and the method for recording expenses related to acquisition has been changed to the fiscal year in which the expenses were incurred. Additionally, concerning business combinations which occur on or after the beginning of the first quarter of the fiscal year ending June 30, 2016, the method has been changed to reflect revisions to distribution amounts of acquisition costs resulting from settlement of provisional accounting treatment in the quarterly financial statements for the accounting period to which the business combination applies.

Concerning the application of the Business Combination Accounting Standard, etc., they have been applied in accordance with the transitional treatment set forth in Article 58-2 (4) of the Business Combination Accounting Standard and Article 57-4 (4) of the Business Divestiture Accounting Standard from the beginning of the first quarter of the fiscal year ending June 30, 2016 onward.

These changes did not have material impacts on the Company’s profits and losses in the first quarter of the fiscal year ending June 30, 2016.

3. Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Thousands of yen)

	As of June 30, 2015	As of September 30, 2015
Assets		
Current assets		
Cash and deposits	5,879,619	5,027,682
Accounts receivable - trade	346,826	360,384
Deferred tax assets	45,514	26,112
Other	91,749	156,466
Total current assets	6,363,709	5,570,645
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings, net	20,011	19,214
Tools, furniture and fixtures, net	342,134	313,450
Land	1,000,000	1,000,000
Construction in progress	-	100,807
Total property, plant and equipment	1,362,146	1,433,472
Intangible assets		
Goodwill	-	97,904
Other	3,337	3,393
Total intangible assets	3,337	101,297
Investments and other assets		
Deferred tax assets	1,235	1,160
Other	8,014	6,842
Total investments and other assets	9,249	8,003
Total non-current assets	1,374,732	1,542,773
Total assets	7,738,442	7,113,418
Liabilities		
Current liabilities		
Accounts payable - trade	16,012	16,854
Accounts payable - other	100,517	23,354
Accrued expenses	148,086	45,130
Income taxes payable	509,132	5,011
Advances received	14,682	63,078
Other	37,580	8,807
Total current liabilities	826,011	162,236
Total liabilities	826,011	162,236
Net assets		
Shareholders' equity		
Capital stock	2,750,336	2,750,936
Capital surplus	2,746,618	2,747,218
Retained earnings	1,399,569	1,437,119
Total shareholders' equity	6,896,523	6,935,273
Subscription rights to shares	15,908	15,908
Total net assets	6,912,431	6,951,181
Total liabilities and net assets	7,738,442	7,113,418

(2) Quarterly Statements of Income

Three months ended September 30, 2014 and 2015

(Thousands of yen)

	Three months ended September 30, 2014	Three months ended September 30, 2015
Net sales	141,305	389,205
Cost of sales	125,553	183,157
Gross profit	15,751	206,047
Selling, general and administrative expenses	83,218	130,530
Operating income (loss)	(67,466)	75,517
Non-operating income		
Interest income	2,749	726
Foreign exchange gains	33,090	-
Other	114	-
Total non-operating income	35,954	726
Non-operating expenses		
Share issuance cost	90	-
Foreign exchange losses	-	18,267
Other	311	-
Total non-operating expenses	401	18,267
Ordinary income (loss)	(31,913)	57,976
Income (loss) before income taxes	(31,913)	57,976
Income taxes - current	889	950
Income taxes - deferred	(11,474)	19,476
Total income taxes	(10,584)	20,426
Net income (loss)	(21,328)	37,550

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Three months ended September 30, 2014	Three months ended September 30, 2015
Cash flow from operating activities		
Income (loss) before income taxes	(31,913)	57,976
Depreciation	22,006	29,692
Amortization of goodwill	-	3,376
Interest and dividend income	(2,749)	(726)
Foreign exchange losses (gains)	(22,672)	16,699
Share issuance cost	90	-
Decrease (increase) in notes and accounts receivable - trade	50,846	(13,558)
Increase (decrease) in notes and accounts payable - trade	(2,491)	842
Increase (decrease) in accounts payable - other	5,776	(6,263)
Increase (decrease) in accrued expenses	(10,800)	(102,956)
Increase (decrease) in advances received	(14,173)	48,395
Other, net	13,338	(100,780)
Subtotal	7,257	(67,302)
Interest and dividend income received	3,773	575
Income taxes paid	(20,842)	(494,971)
Net cash provided by (used in) operating activities	(9,811)	(561,698)
Cash flow from investing activities		
Purchase of securities	(100,000)	-
Proceeds from redemption of securities	200,000	-
Purchase of property, plant and equipment	(25,588)	(169,472)
Purchase of intangible assets	-	(267)
Payments for transfer of business	-	(105,000)
Net cash provided by (used in) investing activities	74,411	(274,740)
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	16,909	1,200
Proceeds from issuance of subscription rights to shares	13,000	-
Net cash provided by (used in) financing activities	29,910	1,200
Effect of exchange rate change on cash and cash equivalents	22,672	(16,699)
Net increase (decrease) in cash and cash equivalents	117,183	(851,937)
Cash and cash equivalents at beginning of period	2,200,392	4,679,619
Cash and cash equivalents at end of period	2,317,575	3,827,682

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.