# Non-consolidated Financial Results for the Six Months Ended December 31, 2015 [Japanese GAAP]

February 5, 2016

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Scheduled filing date of quarterly securities report: February 8, 2016
Scheduled starting date of dividend payments: —
Supplementary briefing materials on quarterly financial results: No
Explanatory meeting on quarterly financial results: Yes

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

**1. Financial Results for the Six Months Ended December 31, 2015 (July 1, 2015 to December 31, 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 | % |
| Six Months Ended December 31, 2015 | 1,034 | 166.9 | 367 | - | 363 | 414.4 | 246 | 416.9 |
| Six Months Ended December 31, 2014 | 387 | (17.1) | (14) | - | 70 | (64.2) | 47 | (63.2) |

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| Six Months Ended December 31, 2015 | 4.47 | 3.84 |
| Six Months Ended December 31, 2014 | 0.88 | 0.74 |

(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.

(2) Financial position

| | Total assets | Net assets | Equity ratio |
|---|---|---|---|
| | Million yen | Million yen | % |
| As of December 31, 2015 | 7,541 | 7,160 | 94.7 |
| As of June 30, 2015 | 7,738 | 6,912 | 89.1 |

(Reference) Equity As of December 31, 2015: 7,144 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 | - | 0.00 | | | |
| Fiscal Year ending June 30, 2016 (forecast) | | | - | 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 |

(3) Number of shares issued (common stock)

| | | | | |
|---|---|---|---|---|
| 1) Number of shares issued at the end of the period (including treasury stock) | As of December 31, 2015 | 55,261,200 shares | As of June 30, 2015 | 55,213,200 shares |
| 2) Number of treasury stock at the end of the period | As of December 31, 2015 | - shares | As of June 30, 2015 | - shares |
| 3) Average number of shares during the period | Six months ended December 31, 2015 | 55,259,374 shares | Six months ended December 31, 2014 | 54,381,026 shares |

(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.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 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.

・The Company plans to hold an explanatory meeting on financial results for institutional investors on February 17, 2016.

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

### (1) Explanation of Operating Results

During the six months ended December31, 2015 (from July 1, 2015 to December 31, 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, the Company signed a multi-target discovery and optimization agreement with Teijin Pharma, Ltd. on September 28, 2015, and with KYORIN Pharmaceutical Co., Ltd. on November 5, 2015. Furthermore, on December 21, 2015, the Company signed a three-party multi-target discovery and optimization agreement with Genentech and its parent company, F. Hoffmann-La Roche. With these new deal signings, the Company now has discovery deals with four major pharmaceutical companies in Japan and ten major pharmaceutical companies abroad. In other areas, on December 18, 2015, the Collaboration and License Agreement with Switzerland-based Novartis which began in 2010 and was extended in 2012 and 2014 was extended further.

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/macrocyclic 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 1,034,702 thousand yen (increased 646,965 thousand yen year on year), operating income of 367,584 thousand yen (operating loss of 14,538 thousand yen in the same period of the previous fiscal year), ordinary income of 363,375 thousand yen (increased 292,730 thousand yen year on year) and net income of 246,757 thousand yen (increased 199,021 thousand yen year on year) for the six months ended December 31, 2015.

### (2) Explanation of Financial Position

1) Analysis of financial position

Total assets at the end of the second quarter ended December 31, 2015 decreased by 196,510 thousand yen from the end of the previous fiscal year to 7,541,931 thousand yen. This was mainly because cash and deposits decreased by 506,866 thousand yen, despite an increase in accounts receivable - trade of 172,668 thousand yen.

Liabilities decreased by 444,468 thousand yen from the end of the previous fiscal year to 381,542 thousand yen. This was mainly because income taxes payable and accrued expenses decreased by 404,654 thousand yen and 103,371 thousand yen, respectively.

Net assets increased by 247,957 thousand yen from the end of the previous fiscal year to 7,160,389 thousand yen. This was mainly because of the recording of 246,757 thousand yen in net income, and increases in both capital stock and capital surplus of 600 thousand yen.

2) Analysis of status of cash flows

Cash and cash equivalents for the six months ended December 31, 2015 increased by 693,133 thousand yen from the end of the previous fiscal year to 5,372,753 thousand yen.

Status of cash flows and related factors during the six months ended December 31, 2015 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash outflow of 222,098 thousand yen (a 169,833 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 495,101 thousand yen and a 172,668 thousand yen increase in notes and accounts receivable - trade, despite the recording of income before income taxes of 361,356 thousand yen and a 22,475 thousand yen increase in advances received.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash inflow of 915,431 thousand yen (decreased by 185,050 thousand yen year on year), reflecting factors such as an inflow of 1,200,000 thousand yen from proceeds from withdrawal of time deposits, despite outflows of 179,202 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 1,170 thousand yen (decreased by 30,680 thousand yen year on year). This was due to factors such as proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 1,170 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, 2015 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 second 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 December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,879,619 | 5,372,753 |
| Accounts receivable - trade | 346,826 | 519,494 |
| Deferred tax assets | 45,514 | 23,901 |
| Other | 91,749 | 84,401 |
| Total current assets | 6,363,709 | 6,000,551 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Facilities attached to buildings, net | 20,011 | 18,418 |
| Tools, furniture and fixtures, net | 342,134 | 301,081 |
| Land | 1,000,000 | 1,000,000 |
| Construction in progress | - | 115,927 |
| Total property, plant and equipment | 1,362,146 | 1,435,426 |
| Intangible assets | | |
| Goodwill | - | 92,840 |
| other | 3,337 | 6,264 |
| Total property, plant and equipment | 3,337 | 99,104 |
| Investments and other assets | | |
| Deferred tax assets | 1,235 | 1,177 |
| Other | 8,014 | 5,670 |
| Total investments and other assets | 9,249 | 6,848 |
| Total non-current assets | 1,374,732 | 1,541,380 |
| Total assets | 7,738,442 | 7,541,931 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 16,012 | 27,223 |
| Accounts payable - other | 100,517 | 61,039 |
| Accrued expenses | 148,086 | 44,714 |
| Income taxes payable | 509,132 | 104,478 |
| Advances received | 14,682 | 37,158 |
| Other | 37,580 | 106,928 |
| Total current liabilities | 826,011 | 381,542 |
| Total liabilities | 826,011 | 381,542 |
| 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 | 1,646,327 |
| Total shareholders' equity | 6,896,523 | 7,144,481 |
| Subscription rights to shares | 15,908 | 15,908 |
| Total net assets | 6,912,431 | 7,160,389 |
| Total liabilities and net assets | 7,738,442 | 7,541,931 |

(2) Quarterly Statements of Income

Six months ended December 31, 2014 and 2015

(Thousands of yen)

| | Six months ended December 31, 2014 | Six months ended December 31, 2015 |
|---|---|---|
| Net sales | 387,736 | 1,034,702 |
| Cost of sales | 244,082 | 389,714 |
| Gross profit | 143,654 | 644,987 |
| Selling, general and administrative expenses | 158,192 | 277,403 |
| Operating income (loss) | (14,538) | 367,584 |
| Non-operating income | | |
| Interest income | 5,014 | 1,209 |
| Foreign exchange gains | 80,291 | - |
| Other | 339 | 156 |
| Total non-operating income | 85,644 | 1,365 |
| Non-operating expenses | | |
| Share issuance cost | 120 | 30 |
| Foreign exchange losses | - | 5,544 |
| Other | 341 | - |
| Total non-operating expenses | 461 | 5,574 |
| Ordinary income | 70,644 | 363,375 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | - | 2,018 |
| Total extraordinary losses | - | 2,018 |
| Income before income taxes | 70,644 | 361,356 |
| Income taxes - current | 14,920 | 92,928 |
| Income taxes - deferred | 7,987 | 21,669 |
| Total income taxes | 22,908 | 114,598 |
| Net income | 47,735 | 246,757 |

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

| | Six months ended December 31, 2014 | Six months ended December 31, 2015 |
|---|---|---|
| Cash flow from operating activities | | |
| Income before income taxes | 70,644 | 361,356 |
| Depreciation | 45,466 | 59,944 |
| Amortization of goodwill | - | 8,440 |
| Interest and dividend income | (5,014) | (1,209) |
| Foreign exchange losses (gains) | (50,454) | 1,369 |
| Share issuance cost | 120 | 30 |
| 固定資産除却損 | - | 2,018 |
| Decrease (increase) in notes and accounts receivable - trade | (56,049) | (172,668) |
| Increase (decrease) in notes and accounts payable - trade | 4,236 | 11,210 |
| Increase (decrease) in accounts payable - other | 1,383 | 1,919 |
| Increase (decrease) in accrued expenses | (14,100) | (103,371) |
| Increase (decrease) in advances received | (27,254) | 22,475 |
| Other, net | (5,299) | 80,269 |
| Subtotal | (36,321) | 271,785 |
| Interest and dividend income received | 5,274 | 1,218 |
| Income taxes paid | (21,168) | (495,101) |
| Net cash provided by (used in) operating activities | (52,215) | (222,098) |
| Cash flow from investing activities | | |
| Net decrease (increase) in time deposits | - | 1,200,000 |
| Purchase of short-term and long-term investment securities | (100,000) | - |
| Proceeds from redemption of securities | 1,300,000 | - |
| Purchase of property, plant and equipment | (95,777) | (179,202) |
| Purchase of intangible assets | (3,740) | (366) |
| Payments for transfer of business | - | (105,000) |
| Net cash provided by (used in) investing activities | 1,100,482 | 915,431 |
| Cash flow from financing activities | | |
| Proceeds from issuance of shares resulting from exercise of subscription rights to shares | 18,879 | 1,170 |
| Proceeds from issuance of subscription rights to shares | 12,970 | - |
| Net cash provided by (used in) financing activities | 31,850 | 1,170 |
| Effect of exchange rate change on cash and cash equivalents | 50,454 | (1,369) |
| Net increase (decrease) in cash and cash equivalents | 1,130,571 | 693,133 |
| Cash and cash equivalents at beginning of period | 2,200,392 | 4,679,619 |
| Cash and cash equivalents at end of period | 3,330,964 | 5,372,753 |

## (4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.