Non-consolidated Financial Results for the Nine Months Ended March 31, 2016 [Japanese GAAP]

May 10, 2016

Company name: PeptiDream Inc. Tokyo Stock Exchange
Stock code: 4587 URL http://www.peptidream.com/
Representative: Kiichi Kubota, President & Chief Executive Officer
Inquiries: Yoshiyuki Sekine, Vice President – Head of Business Administration TEL: +81-3-3485-7707

Scheduled filing date of quarterly securities report: May 11, 2016
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 Nine Months Ended March 31, 2016 (July 1, 2015 to March 31, 2016)

(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	%
Nine Months Ended March 31, 2016	2,681	400.7	1,541	-	1,456	-	977	-
Nine Months Ended March 31, 2015	535	(10.3)	(72)	(154.8)	12	(92.4)	5	(95.0)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine Months Ended March 31, 2016	17.65	15.18
Nine Months Ended March 31, 2015	0.10	0.08

(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 March 31, 2016	10,204	8,963	87.7
As of June 30, 2015	7,738	6,912	89.1

(Reference) Equity As of March 31, 2016: 8,954 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 March 31, 2016	56,147,600 shares	As of June 30, 2015	55,213,200 shares
2) Number of treasury stock at the end of the period	As of March 31, 2016	- shares	As of June 30, 2015	- shares
3) Average number of shares during the period	Nine months ended March 31, 2016	55,346,822 shares	Nine months ended March 31, 2015	54,518,601 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.

Index of Appendix

1. Qualitative Information on Quarterly Financial Results for the Period under Review 2
(1) Explanation of Operating Results 2
(2) Explanation of Financial Position 3
(3) Explanation of Financial Forecasts and Other Forward-looking Information 3
2. Summary Information (Notes) 4
(1) Adoption of Accounting Policies Specific to the Preparation of Quarterly Financial Statements 4
(2) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatements 4
3. Quarterly Financial Statements 5
(1) Quarterly Balance Sheets 5
(2) Quarterly Statements of Income 6
(3) Quarterly Statements of Cash Flows 7
(4) Notes to Quarterly Financial Statements 8
(Notes regarding going concern assumption) 8
(Notes in case of significant changes in equity) 8

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

(1) Explanation of Operating Results

During the nine months ended March 31, 2015 (from July 1, 2015 to March 31, 2016), 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. Additionally, the Company entered into a multi-target Collaboration and License Agreements with Shionogi & Co., Ltd. on February 5, 2016, and with Asahi Kasei Pharma Corporation on March 28, 2016, to discover and develop nonstandard constrained/macrocyclic peptide therapeutics and/or small molecule therapeutics against biologic targets supplied by Shionogi and Asahi Kasei. With these new deal signings, the Company now has discovery deals with six 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.

Regarding PDPS technology license agreements, the Company agreed upon a non-exclusive technology license agreement with US-based Eli Lilly & Company on March 4th, 2016. The technology license will enable US-based Eli Lilly to utilize the PDPS technology to discover and develop peptide and small molecule therapeutics on their own. Eli Lilly is now the 3rd company to non-exclusively license the PDPS technology (Bristol-Myers Squibb and Novartis).

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 oparations. The Company continues to expand the power of its PDPS technology beyond hit finding by developing a vast variety of optimization methodologies to not only rapidly identify therapeutic candidates but also to rapidly optimize those candidates to accelerate their development into clinical candidates, with both Company’s in-house programs and partnered programs. Additionally, the Company’s PDPS technology continues to prove itself as a superior hit-finding platform allowing for the identification of not only novel therapeutic candidates but also truly novel sites of action on previously difficult to drug biologic targets.

On February 24, 2016, the Company entered into an agreement with the Japan Aerospace Exploration Agency (hereinafter referred to as “JAXA”) to conduct high resolution crystallography experiments using the International Space Station’s “Kibo” Japanese Experiment Module. This strategic cooperation between JAXA and the Company will allow for the rapid acquisition of critical structural information on how Company’s candidates interact with their corresponding therapeutic target protein, which ultimately serves to accelerate drug development.

In-house drug discovery programs continue to expand and make exciting progress. Preclinical development, optimization, formulation, and final clinical candidate selection efforts continue on Company’s macrocyclic peptide candidates targeting the influenza virus.

In addition, the Company continues to expand the number of in-house discovery and development peptide-drug conjugates (PDCs) programs against a wide variety of relevant cancer targets. Experimental findings show that the properties of the Company’s macrocyclic peptides, high affinity, high selectivity, and excellent in vivo stability, makes them exceptional for use in selectively delivering a drug “conjugate” specifically to cancer cells, and not to healthy cells, thereby significantly increasing efficacy while reducing side effects. While a large number of PDC programs are focused on cancer, additional research programs are underway to investigate other potential uses of the Company’s macrocyclic peptides. As one such example, on February 22, 2016, the Company entered into a Collaboration and License Agreement with JCR Pharmaceuticals Co., Ltd. (hereinafter “JCR Pharma”) to investigate the use of Company’s macrocyclic peptides as carriers for transporting specific drug cargoes “conjugates” across the blood brain barrier (BBB). Such carrier peptides could allow drugs that currently don’t readily cross the

BBB to do so thereby opening a variety of new treatments for various brain diseases.

As a result, the Company reported net sales of 2,681,491 thousand yen (increased 2,145,902 thousand yen year on year), operating income of 1,541,308 thousand yen (operating loss of 72,798 thousand yen in the same period of the previous fiscal year), ordinary income of 1,456,015 thousand yen (increased 1,443,890 thousand yen year on year) and net income of 977,058 thousand yen (increased 971,640 thousand yen year on year) for the nine months ended March 31, 2016.

(2) Explanation of Financial Position

1) Analysis of financial position

Total assets at the end of the third quarter ended March 31, 2016 increased by 2,466,541 thousand yen from the end of the previous fiscal year to 10,204,983 thousand yen. This was mainly because cash and deposits increased by 1,149,303 thousand yen, Accounts receivable-trade increased by 955,246 thousand yen.

Liabilities increased by 415,456 thousand yen from the end of the previous fiscal year to 1,241,467 thousand yen. This was mainly because advances received increased by 474,815 thousand yen, despite a decrease in income taxes payable by 123,548 thousand yen.

Net assets increased by 2,051,085 thousand yen from the end of the previous fiscal year to 8,963,516 thousand yen. This was mainly because of the recording of 977,058 thousand yen in net income, and increases in both capital stock and capital surplus of 540,302 thousand yen.

2) Analysis of status of cash flows

Cash and cash equivalents for the nine months ended March 31, 2016 increased by 2,349,303 thousand yen from the end of the previous fiscal year to 7,028,923 thousand yen.

Status of cash flows and related factors during the Nine months ended March 31, 2016 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 567,457 thousand yen (an outflow of 72,978 thousand yen in the same quarter of the previous fiscal year). This was mainly due to the recording of income before income taxes of 1,450,424 thousand yen and a 474,815 thousand yen increase in advances received, despite a 955,246 thousand yen increase in notes and accounts receivable - trade and income taxes paid amounting to 733,130 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash inflow of 767,385 thousand yen (decreased by 1,219,678 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 315,938 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 1,072,480 thousand yen (increased by 1,028,068 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 1,072,480 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 third 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 March 31, 2016
Assets		
Current assets		
Cash and deposits	5,879,619	7,028,923
Accounts receivable - trade	346,826	1,302,072
Deferred tax assets	45,514	178,229
Other	91,749	60,910
Total current assets	6,363,709	8,570,136
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings, net	20,011	17,622
Tools, furniture and fixtures, net	342,134	300,577
Land	1,000,000	1,000,000
Construction in progress	-	208,759
Total property, plant and equipment	1,362,146	1,526,959
Intangible assets		
Goodwill	-	87,776
other	3,337	5,895
Total property, plant and equipment	3,337	93,671
Investments and other assets		
Deferred tax assets	1,235	1,176
Other	8,014	13,040
Total investments and other assets	9,249	14,216
Total non-current assets	1,374,732	1,634,847
Total assets	7,738,442	10,204,983
Liabilities		
Current liabilities		
Accounts payable - trade	16,012	14,966
Accounts payable - other	100,517	103,613
Accrued expenses	148,086	137,565
Income taxes payable	509,132	385,584
Advances received	14,682	489,498
Other	37,580	110,238
Total current liabilities	826,011	1,241,467
Total liabilities	826,011	1,241,467
Net assets		
Shareholders' equity		
Capital stock	2,750,336	3,290,638
Capital surplus	2,746,618	3,286,920
Retained earnings	1,399,569	2,376,627
Total shareholders' equity	6,896,523	8,954,185
Subscription rights to shares	15,908	9,330
Total net assets	6,912,431	8,963,516
Total liabilities and net assets	7,738,442	10,204,983

(2) Quarterly Statements of Income

Nine months ended March31, 2015 and 2016

(Thousands of yen)

	Nine months ended March 31, 2015	Nine months ended March 31, 2016
Net sales	535,589	2,681,491
Cost of sales	369,744	660,459
Gross profit	165,845	2,021,032
Selling, general and administrative expenses	238,644	479,723
Operating income (loss)	(72,798)	1,541,308
Non-operating income		
Interest income	5,502	1,730
Foreign exchange gains	79,732	-
Other	339	161
Total non-operating income	85,574	1,892
Non-operating expenses		
Share issuance cost	120	1,547
Foreign exchange losses	-	85,638
Other	530	-
Total non-operating expenses	650	87,185
Ordinary income	12,124	1,456,015
Extraordinary losses		
Loss on retirement of non-current assets	-	5,590
Total extraordinary losses	-	5,590
Income before income taxes	12,124	1,450,424
Income taxes - current	1,515	606,023
Income taxes - deferred	5,191	(132,656)
Total income taxes	6,707	473,366
Net income	5,417	977,058

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Nine months ended March 31, 2015	Nine months ended March 31, 2016
Cash flow from operating activities		
Income before income taxes	12,124	1,450,424
Depreciation	73,307	91,031
Amortization of goodwill	-	13,504
Interest and dividend income	(5,502)	(1,730)
Foreign exchange losses (gains)	(51,905)	58,018
Share issuance cost	120	1,547
Loss on retirement of non-current assets	-	5,590
Decrease (increase) in notes and accounts receivable - trade	(37,723)	(955,246)
Increase (decrease) in notes and accounts payable - trade	10,317	(1,046)
Increase (decrease) in accounts payable - other	2,705	58,454
Increase (decrease) in accrued expenses	(13,376)	(10,520)
Increase (decrease) in advances received	(13,943)	474,815
Other, net	(17,435)	113,775
Subtotal	(41,310)	1,298,618
Interest and dividend income received	8,405	1,969
Income taxes paid	(40,072)	(733,130)
Net cash provided by (used in) operating activities	(72,978)	567,457
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	2,300,000	-
Purchase of property, plant and equipment	(209,196)	(315,938)
Purchase of intangible assets	(3,740)	(3,413)
Payments for transfer of business	-	(105,000)
Other	-	(8,263)
Net cash provided by (used in) investing activities	1,987,063	767,385
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	31,629	1,072,480
Proceeds from issuance of subscription rights to shares	12,781	-
Net cash provided by (used in) financing activities	44,411	1,072,480
Effect of exchange rate change on cash and cash equivalents	51,905	(58,018)
Net increase (decrease) in cash and cash equivalents	2,010,402	2,349,303
Cash and cash equivalents at beginning of period	2,200,392	4,679,619
Cash and cash equivalents at end of period	4,210,794	7,028,923

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.