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

February 14, 2017

Company name: PeptiDream Inc. Tokyo Stock Exchange
Stock code: 4587 URL http://www.peptidream.com/
Representative: Kiichi Kubota, President
Inquiries: Yoshiyuki Sekine, Vice President－Head of Business Administration TEL: +81-3-6262-6061
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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, 2016 (July 1, 2016 to December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six Months Ended December 31, 2016	1,163	12.5	345	(5.9)	499	37.4	350	42.0
Six Months Ended December 31, 2015	1,034	166.9	367	-	363	414.4	246	416.9

	Profit per share	Diluted profit per share
	Yen	Yen
Six Months Ended December 31, 2016	6.14	5.40
Six Months Ended December 31, 2015	4.47	3.84

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2016	11,193	10,551	94.2
As of June 30, 2016	11,956	10,242	85.6

(Reference) Equity As of December 31, 2016: 10,548 million yen
As of June 30, 2016: 10.237 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, 2016	-	0.00	-	0.00	0.00
Fiscal Year ending June 30, 2017	-	0.00			
Fiscal Year ending June 30, 2017 (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, 2017 (July 1, 2016 to June 30, 2017)

Regarding the financial forecasts for the fiscal year ending June 30, 2017, as many of the Company's management and business results targets span numerous fiscal years, it is extremely difficult to make projections for business results figures for a single fiscal year. As a result, the Company will no longer announce business results forecasts from the fiscal year ending June 30, 2017.

In order to contribute to investor analysis, information regarding forecasts for the fiscal year ending June 30, 2017 is provided in "1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results, Forecast for the fiscal year ending June 30, 2017" on page 3 of the "Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2016 [Japanese GAAP]" announced on August 9, 2016. Furthermore, a "Medium-term outlook" for the fiscal year ending June 30, 2018 onward is also provided for reference.

[Notes]

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

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

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

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

3) Changes in accounting estimates : None

4) Retrospective restatements : None

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury shares)	As of December 31, 2016	57,276,800 shares	As of June 30, 2016	56,440,800 shares
2) Number of treasury shares at the end of the period	As of December 31, 2016	75,100 shares	As of June 30, 2016	- shares
3) Average number of shares during the period	Six months ended December 31, 2016	57,063,987 shares	Six months ended December 31, 2015	55,259,374 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

Regarding the financial forecasts for the fiscal year ending June 30, 2017, as many of the Company's management and business results targets span numerous fiscal years, it is extremely difficult to make projections for business results figures for a single fiscal year. As a result, the Company will no longer announce business results forecasts from the fiscal year ending June 30, 2017.

In order to contribute to investor analysis, information regarding forecasts for the fiscal year ending June 30, 2017 is provided in "1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results, Forecast for the fiscal year ending June 30, 2017" on page 3 of the "Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2016 [Japanese GAAP]" announced on August 9, 2016. Furthermore, a "Medium-term outlook" for the fiscal year ending June 30, 2018 onward is also provided for reference

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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 December 30, 2016 (from July 1, 2016 to December 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.

As the nonstandard constrained/macrocyclic peptides identified by the discovery and optimization agreement with Teijin Pharma, Ltd. (commenced in September 2015) met the pre-defined criteria of biological activity and other related PK properties, the Company received the pre-defined milestone in September 2016.

Furthermore, regarding PDPS technology license agreements, the Company agreed to give a non-exclusive technology license for its proprietary PDPS to US-based Genentech in July 2016. The technology license will enable Genentech to utilize the PDPS technology to discover and develop peptide and small molecule therapeutics on their own.

In August 2016, the Company entered into a collaboration and license agreement with the Tokyo Institute of Technology ("Tokyo Tech") for the in silico discovery and development of constrained peptides using Tokyo Tech's TSUBAME 2.5 supercomputer and related technologies. This agreement aims to establish in silico prediction technology, based on the significant amount of experimental data regarding constrained/macrocyclic peptides attained and held by the Company and by utilizing TSUBAME 2.5 supercomputer, computational science, machine learning and artificial intelligence technologies of Tokyo Tech.

In December 2016, the nonstandard constrained/macrocyclic peptides identified by the discovery and optimization agreement with Novartis (extended in March 2013) met the criteria and the Company received the pre-defined milestone.

As a result, the Company reported net sales of 1,163,869 thousand yen (increased 129,167 thousand yen year on year), operating income of 345,737 thousand yen (decreased 21,846 thousand yen year on year), ordinary income of 499,218 thousand yen (increased 135,843 thousand yen year on year) and profit of 350,506 thousand yen (increased 103,748 thousand yen year on year) for the six months ended December 31, 2016.

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 second quarter ended December 31, 2016 decreased 762,650 thousand yen from the end of the previous fiscal year to 11,193,752 thousand yen. This was mainly because cash and deposits decreased by 1,163,910 thousand yen and accounts receivable-trade decreased by 1,244,881 thousand yen, despite an increase in construction in progress of 1,659,875 thousand yen.

Liabilities decreased by 1,071,415 thousand yen from the end of the previous fiscal year to 642,230 thousand yen. This was mainly because income taxes payable, advances received and accrued expenses decreased by 661,866 thousand yen, 213,914 thousand yen and 130,491 thousand yen, respectively.Net assets increased by 308,765 thousand yen from the end of the previous fiscal year to 10,551,521 thousand yen. This was mainly because of the recording of 350,506 thousand yen in profit, an increase of 195,798 thousand yen in capital stock, and an increase of 195,798 thousand yen in capital surplus, despite a decrease owing to the recording of 430,869 thousand yen in treasury shares.

2) Analysis of status of cash flows

Cash and cash equivalents for the six months ended December 31, 2016 decreased by 1,163,910 thousand yen from the end of the previous fiscal year to 5,745,239 thousand yen.

Status of cash flows and the factors during the six months ended December 31, 2016 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 582,791 thousand yen (an outflow of 222,098 thousand yen in the same quarter of the previous fiscal year). This was mainly due to inflows from the recording of profit before

income taxes of 499,218 thousand yen and a decrease in notes and accounts receivable - trade of 1,244,881 thousand yen, despite income taxes paid amounting to 695,281 thousand yen, a 213,914 thousand yen decrease in advances received, and a 130,491 thousand yen decrease in accrued expenses.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 1,739,723 thousand yen (an inflow of 915,431 thousand yen in the same quarter of the previous fiscal year). This was due to an outflow of 1,723,035 thousand yen for purchase of property, plant and equipment and an outflow of 16,688 thousand yen for purchase of intangible assets.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash outflow of 43,141 thousand yen (an inflow of 1,170 thousand yen in the same quarter of the previous fiscal year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 387,727 thousand yen, despite an outflow of 430,869 thousand yen for purchase of treasury shares.

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

Regarding the financial forecasts for the fiscal year ending June 30, 2017, as many of the Company's management and business results targets span numerous fiscal years, it is extremely difficult to make projections for business results figures for a single fiscal year. As a result, the Company will no longer announce business results forecasts from the fiscal year ending June 30, 2017.

2. Summary Information (Notes)

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

Not applicable.

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

Not applicable.

3. Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Thousands of yen)

	As of June 30, 2016	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	6,909,149	5,745,239
Accounts receivable - trade	1,400,938	156,056
Prepaid expenses	57,934	89,821
Deferred tax assets	194,410	95,199
Other	36,698	74,367
Total current assets	8,599,130	6,160,685
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings, net	33,544	16,772
Tools, furniture and fixtures, net	320,536	346,630
Land	1,000,000	1,000,000
Construction in progress	1,784,586	3,444,461
Total property, plant and equipment	3,138,666	4,807,863
Intangible assets		
Goodwill	82,712	72,584
Software	5,526	4,789
Other	17,352	34,040
Total intangible assets	105,591	111,414
Investments and other assets		
Long-term loans receivable	100,000	100,000
Long-term prepaid expenses	3,438	983
Deferred tax assets	1,311	-
Other	8,263	12,804
Total investments and other assets	113,013	113,788
Total non-current assets	3,357,271	5,033,066
Total assets	11,956,402	11,193,752
Liabilities		
Current liabilities		
Accounts payable - trade	10,197	31,588
Accounts payable - other	57,004	62,750
Accrued expenses	247,574	117,082
Income taxes payable	729,304	67,437
Advances received	472,955	259,041
Deposits received	62,510	12,774
Asset retirement obligations	-	15,600
Other	118,499	74,737
Total current liabilities	1,698,045	641,012
Non-current liabilities		
Asset retirement obligations	15,600	-
Deferred tax liabilities	-	1,218
Total non-current liabilities	15,600	1,218
Total liabilities	1,713,645	642,230

(Thousands of yen)

	As of June 30, 2016	As of December 31, 2016
Net assets		
Shareholders' equity		
Capital stock	3,630,183	3,825,981
Capital surplus	3,626,465	3,822,263
Retained earnings	2,980,857	3,331,363
Treasury shares	-	(430,869)
Total shareholders' equity	10,237,505	10,548,740
Subscription rights to shares	5,250	2,781
Total net assets	10,242,756	10,551,521
Total liabilities and net assets	11,956,402	11,193,752

(2) Quarterly Statements of Income

Six months ended December 31, 2015 and 2016

(Thousands of yen)

	Six months ended December 31, 2015	Six months ended December 31, 2016
Net sales	1,034,702	1,163,869
Cost of sales	389,714	469,828
Gross profit	644,987	694,041
Selling, general and administrative expenses	277,403	348,304
Operating income	367,584	345,737
Non-operating income		
Interest income	1,209	420
Foreign exchange gains	-	67,767
Fiduciary obligation fee	-	86,665
Other	156	27
Total non-operating income	1,365	154,881
Non-operating expenses		
Share issuance cost	30	1,400
Foreign exchange losses	5,544	-
Total non-operating expenses	5,574	1,400
Ordinary income	363,375	499,218
Extraordinary losses		
Loss on retirement of non-current assets	2,018	-
Total extraordinary losses	2,018	-
Profit before income taxes	361,356	499,218
Income taxes - current	92,928	46,971
Income taxes - deferred	21,669	101,740
Total income taxes	114,598	148,712
Profit	246,757	350,506

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Six months ended December 31, 2015	Six months ended December 31, 2016
Cash flow from operating activities		
Profit before income taxes	361,356	499,218
Depreciation	59,944	86,090
Amortization of goodwill	8,440	10,128
Interest and dividend income	(1,209)	(420)
Foreign exchange losses (gains)	1,369	(36,162)
Share issuance cost	30	1,400
Loss on retirement of non-current assets	2,018	-
Decrease (increase) in notes and accounts receivable - trade	(172,668)	1,244,881
Decrease (increase) in prepaid expenses	(37,085)	(31,887)
Increase (decrease) in notes and accounts payable - trade	11,210	21,390
Increase (decrease) in accounts payable - other	1,919	(25,768)
Increase (decrease) in accrued expenses	(103,371)	(130,491)
Increase (decrease) in advances received	22,475	(213,914)
Increase (decrease) in deposits received	(24,250)	(49,735)
Other, net	141,605	(97,074)
Subtotal	271,785	1,277,652
Interest and dividend income received	1,218	420
Income taxes paid	(495,101)	(695,281)
Net cash provided by (used in) operating activities	(222,098)	582,791
Cash flow from investing activities		
Net decrease (increase) in time deposits	1,200,000	-
Purchase of property, plant and equipment	(179,202)	(1,723,035)
Purchase of intangible assets	(366)	(16,688)
Payments for transfer of business	(105,000)	-
Net cash provided by (used in) investing activities	915,431	(1,739,723)
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	1,170	387,727
Purchase of treasury shares	-	(430,869)
Net cash provided by (used in) financing activities	1,170	(43,141)
Effect of exchange rate change on cash and cash equivalents	(1,369)	36,162
Net increase (decrease) in cash and cash equivalents	693,133	(1,163,910)
Cash and cash equivalents at beginning of period	4,679,619	6,909,149
Cash and cash equivalents at end of period	5,372,753	5,745,239

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.