Disclaimer: This translation is prepared and provided for readers' convenience only. This summary does not constitute any guarantee, and the Company will not compensate any losses and/or damage stemming from actions taken based on these statements. In the case that there is any discrepancy between the Japanese and English versions, the Japanese version is assumed to be correct.

May 14, 2019

Summary of Consolidated Financial Results for the First Three Months of the Fiscal Year Ending December 31, 2019 (JGAAP)

Listed company's name: RaQualia Pharma Inc.
Listed on: Tokyo Stock Exchange (TSE)
Stock code: 4579
URL: https://www.raqualia.com/
Representative: Naoki Tani, President and CEO
Contact: Kiichiro Kawada, Director and Executive Vice President (TEL) +81-52-446-6100
Scheduled date of filing of quarterly securities report: May 14, 2019
Scheduled date of dividend payment: —
Supplementary documents for quarterly results: None
Quarterly results briefing: None

(Amounts are rounded down to the nearest million yen.)

1. Consolidated financial results for the first three months of the fiscal year ending December 31, 2019 (January 1, 2019 to March 31, 2019)

(1) Consolidated operating results (cumulative)

(Percentage figures represent changes from the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
First three months ended	million yen	%	million yen	%	million yen	%	million yen	%
March 31, 2019	347	(12.3)	(104)	-	(95)	-	(102)	-
March 31, 2018	396	(5.1)	(240)	-	(285)	-	(311)	-

Note: Comprehensive income Three months ended March 31, 2019: (81) million yen [–%]
Three months ended March 31, 2018: (367) million yen [–%]

	Earnings per share (Basic)	Earnings per share (Diluted)
First three months ended	yen	yen
March 31, 2019	(5.05)	-
March 31, 2018	(15.33)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	million yen	million yen	%
March 31, 2019	4,025	3,789	93.5
December 31, 2018	4,052	3,857	94.9

Reference: Equity As of March 31, 2019: 3,763 million yen As of December 31, 2018: 3,844 million yen

2. Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended December 31, 2018	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2019	-				
Fiscal year ending December 31, 2019 (forecast)		0.00	-	0.00	0.00

Note: Revisions to the forecast of dividends most recently announced: None

3. Forecasts of consolidated financial results for the fiscal year ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share (Basic)
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal year ending December 31, 2019	2,022	171.6	187	-	195	-	153	-	7.52

Note: Revisions to the forecasts of results most recently announced: None

* As the Company conducts performance management on an annualized basis, forecasts of results over a six-month period are omitted.

*** Notes**

(1) Changes in significant subsidiaries during the first three months ended March 31, 2019 (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatements of prior financial statements

a. Changes in accounting policies due to the revisions to accounting standards and other regulations: None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatements of prior financial statements: None

(4) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2019	20,388,389 shares
As of December 31, 2018	20,388,389 shares

b. Total number of treasury shares at the end of the period

As of March 31, 2019	50 shares
As of December 31, 2018	50 shares

c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

For the first three months ended March 31, 2019	20,388,339 shares
For the first three months ended March 31, 2018	20,330,222 shares

*** Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.**

*** Appropriate use of financial forecasts and other special remarks**

(Caution concerning forward-looking statements)

Forward-looking statements provided in this document, including financial forecasts, are based on the information currently available to the Company and certain assumptions considered reasonable. Such statements are included without any guarantee as to their future achievement. Actual results, etc. may differ materially from the forecasts depending on various factors.

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1. Qualitative information regarding settlement of accounts for the first three months

(1) Qualitative information regarding consolidated operating results

1) Financial results

During the first three months ended March 31, 2019, the Group continued to show a steady overall performance. This is attributable to the milestone payment received for the marketing launch of the Group's first human drug product as well as the royalty income related to pet drug products that had been underpinning the Group's profitability.

The Group's most significant progress during the first three months is that our licensee CJ HealthCare Corporation (South Korea) ("CJ HealthCare (South Korea)") started selling tegoprazan (RQ-00000004/CJ-12420/brand name in South Korea (registered trademark in South Korea): K-CAB®; "K-CAB®" or "tegoprazan") on March 1, 2019. K-CAB® has an indication for gastro-esophageal reflux disease (GERD) including non-erosive reflux disease (NERD). This marked the world's first-ever approval obtained for a potassium-competitive acid blocker (P-CAB) for an indication for NERD. CJ HealthCare (South Korea) also created a foothold for tegoprazan in the market. It concluded a co-promotion agreement with Chong Kun Dang Pharmaceutical Corp. (South Korea), one of the leading Korean pharmaceutical manufacturers with strengths in the South Korean domestic market. For the Latin America market, it concluded a sub-license agreement with Laboratorios Carnot (Mexico) ("Carnot (Mexico)") covering 17 Latin American countries including Mexico and Argentine. In addition, Phase III clinical trials are proceeding satisfactorily at the Shandong Luoxin Pharmaceutical Group (China) ("Luoxin Pharma (China)"), which is a licensee of CJ HealthCare (South Korea) in China.

Sales of pet drug products, the Group's revenue base, also recorded a steady growth. The Group outperformed expectations in sales of the EP4 antagonist (GALLIPRANT®, grapiprant, RQ-00000007, AT-001; "GALLIPRANT®") licensed for pain management for pets. This achievement came from successful joint marketing promotions between Elanco Animal Health (U.S.) ("Elanco (U.S.)"), which is the animal drug division of Eli Lilly and Company, and Aratana Therapeutics Inc. (U.S.) ("Aratana (U.S.)"), which is the Group's licensee. Furthermore, in Europe, Elanco (U.S.) started selling the drug mentioned above and yielded millstone income. Meanwhile, Aratana (U.S.) has steadily increased the sales of our Ghrelin receptor agonist (ENTYCE®, capromorelin, RQ-00000005, AT-002), which has an indication for anorexia management for dogs, and constantly received inquiries from veterinary clinics and other customers. Aratana (U.S.) has also been carrying out pivotal studies of the drug in cats with anorexia for further development.

As for licensed-out programs, the serotonin 5-HT_{2A} and dopamine D_2 receptor blocker (ziprasidone), which is being developed by Meiji Seika Pharma Co., Ltd. ("Meiji Seika Pharma") as a treatment for schizophrenia, continues to undergo Phase III clinical trials in Japan. It is expected that Meiji Seika Pharma is going to file an application for production and distribution of new drug in 2019. In relation to the ion channel drug discovery that is one of the strengths of the Group, the P2X7 receptor antagonist (RQ-00466479, AKP-23494954)—created through collaborative research with Asahi Kasei Pharma Corporation ("Asahi Kasei Pharma")—is in the preclinical trial phase, and the development is proceeding satisfactorily by Asahi Kasei Pharma. Other developments are also proceeding as planned, including compounds created through the collaborative research on a specific ion channel target for digestive treatments with EA Pharma Co., Ltd. and a selective sodium channel blocker licensed to Maruho Co., Ltd.

Regarding to the retinoic acid receptor alpha agonist (Tamibarotene, TM-411, SY-1425)—licensed to Syros Pharmaceuticals Inc. (U.S.) ("Syros (U.S.)") by TMRC Co., Ltd. (the Company's consolidated subsidiary) for the treatment of acute myeloid leukemia (AML), satisfactory initial data was obtained from the Phase II clinical trial of combination with azacitidine. Following this success, Syros (U.S.) announced in March 2019 that it would also enroll relapsed or refractory AML patients in a cohort for the Phase II clinical trial of combination with azacitidine in addition to untreated and elderly AML patients. Syros (U.S.) is also proceeding with the development using a precision medicine approach (i.e., patient selection by biomarker), which is based on its own "gene control platform" technology.

Meanwhile, RaQualia Innovations Inc., established in December 2018, has started its initial activities to collaborate with academia including a national university corporation, Nagoya University ("Nagoya University") and a national university corporation, the University of Tokyo. With the aid of venture capital and investment funds, it is also preparing to provide ventures in the life science field with support for developing technologies and formulating intellectual property strategies.

In our industry-academia-government collaboration activities, we aim to bring our drug discovery research activities to the next level, starting with the collaborative research with Nagoya University on new mechanism-based drugs for heart failure.

Accordingly, financial results for the first three months, the reporting period, were as follows. Business revenue for the period

was 347 million yen (down 12.3% year on year), operating loss totaled 104 million yen (compared with operating loss of 240 million yen a year earlier), ordinary loss totaled 95 million yen (compared with ordinary loss of 285 million yen a year earlier), and loss attributable to owners of parent was 102 million yen (compared with loss attributable to owners of parent of 311 million yen a year earlier). Total business expenses were 452 million yen (down 29.0% year on year). This total mainly consists of cost of business revenue (88 million yen, a 366.5% increase from the same quarter last year), research and development expenses (209 million yen, a 45.8% decrease from the same quarter last year) and other selling, general and administrative expenses (154 million yen, a 33.2% decrease from the same quarter last year).

2) Research and development

Research and development expenses of the entire Group during the first three months were 209 million yen. The main components of these activities were as follows:

(A) RaQualia's research and development and collaborative research and development

Exploratory and discovery phase

In a research project to evaluate a CRHR2 antagonist, the Company has discovered lead compounds and started an investigation of preclinical efficacy. The project has been carried out to create new mechanism-based drugs for heart failure in collaboration with the Department of Cardiology of the Faculty of Internal Medicine, Graduate School of Medicine, Nagoya University (under the supervision of Professor Toyoaki Murohara and Associate Professor Mikito Takefuji).

For the first three months, there were no material changes other than what is stated above.

Preclinical development phase

For the first three months, there were no material changes to the preclinical development phase.

Clinical development phase

For the first three months, there were no material changes to the clinical development phase.

(B) Status of development at licensee corporation

a) Potassium-competitive acid blocker (tegoprazan)

The compound is under development by CJ HealthCare (South Korea). It obtained approval for the production and distribution of the compound for an indication for gastro-esophageal reflux disease (GERD) in July 2018, and started selling it in March 2019. To pursue additional indications, clinical trials have been conducted in South Korea. In addition, Luoxin Pharma (China), a licensee of CJ HealthCare (South Korea), started Phase III clinical trials in October 2018 in China. Furthermore, CJ HealthCare (South Korea) concluded a sub-license agreement with Vimedimex Medi-Pharma JSC (Vietnam) in December 2018, and with Carnot (Mexico) in February 2019.

b) EP4 antagonist (GALLIPRANT®)

The compound was developed for pain management for pets by Aratana (U.S.). In January 2017, the Company started selling it in the U.S. through Aratana (U.S.) and Elanco (U.S.), posting steady sales growth. The Company obtained approval for the production and distribution of the compound also in Europe in January 2018, and started selling it in March 2019.

For the first three months, there were no material changes other than what is stated above.

(2) Qualitative information regarding consolidated financial position

1) Analysis of assets, liabilities and net assets

Assets

Total assets as of March 31, 2019 were 4,025 million yen, a decrease of 26 million yen (down 0.7%) from the end of the previous fiscal year. This is mainly attributable to a decrease in cash and deposits of 364 million yen and an increase in accounts receivable - trade of 232 million yen.

Liabilities

Total liabilities as of March 31, 2019 were 236 million yen, an increase of 41 million yen (up 21.0%) from the end of the previous fiscal year. This is mainly attributable to an increase in accounts payable - trade of 74 million yen and a decrease in accounts payable - other of 31 million yen.

Net assets

Total net assets as of March 31, 2019 were 3,789 million yen, a decrease of 67 million yen (down 1.8%) from the end of the previous fiscal year. This is mainly attributable to the recording of loss attributable to owners of parent of 102 million yen, an increase in valuation difference on available-for-sale securities of 21 million yen and an increase in share acquisition rights of 13 million yen.

Consequently, the equity ratio was 93.5% (down 1.4 percentage points from the end of the previous fiscal year.)

2) Analysis of cash flows

The balance of cash and cash equivalents ("net cash") as of March 31, 2019 amounted to 1,371 million yen (compared with 2,152 million yen a year earlier), a decrease of 457 million yen (down 25.0%) from the end of the previous fiscal year.

The respective cash flows in the first three months and the factors thereof are as follows.

Cash flows from operating activities

Net cash used in operating activities was 385 million yen, an increase of 317 million yen (up 465.1%) year on year. This is mainly attributable to the recording of loss before income taxes of 95 million yen, a cash outflow from increases in notes and accounts receivable - trade of 232 million yen and prepaid expenses of 157 million yen, and a cash inflow from an increase in notes and accounts payable - trade of 74 million yen.

Cash flows from investing activities

Net cash used in investing activities was 78 million yen, a decrease of 187 million yen (down 70.4%) year on year. This is mainly attributable to purchase of property, plant and purchase of equipment of 58 million yen and intangible assets of 19 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 4 million yen, a decrease of 60 million yen (down 93.3%) year on year. This is primarily due to proceeds from issuance of share acquisition rights of 4 million yen.

(3) Qualitative information regarding consolidated earnings forecasts

There has been no change to the figures of the consolidated earnings forecasts for the fiscal year ending December 31, 2019 contained in the "Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2018 (JGAAP)" announced on February 8, 2019. The Company carefully examines business revenue and business expenses whenever necessary, and in the case that any revisions are made to the expected earnings forecasts due to changes made to the estimated amounts for the fiscal year under review, the Company will make relevant announcements immediately.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	1,671,346	1,306,911
Accounts receivable - trade	680	233,422
Securities	168,193	74,826
Supplies	6,498	6,267
Advance payments - trade	8,737	7,440
Prepaid expenses	71,937	229,625
Other	34,858	40,156
Total current assets	1,962,252	1,898,651
Non-current assets		
Property, plant and equipment		
Buildings, net	88,268	85,583
Tools, furniture and fixtures, net	226,666	250,325
Leased assets, net	2,860	2,688
Total property, plant and equipment	317,795	338,597
Intangible assets		
Trademark right	4,533	4,352
Software	28,420	27,632
Other	1,032	1,032
Total intangible assets	33,985	33,017
Investments and other assets		
Investment securities	1,716,580	1,735,179
Long-term prepaid expenses	10,035	8,261
Other	11,652	11,852
Total investments and other assets	1,738,267	1,755,293
Total non-current assets	2,090,049	2,126,908
Total assets	4,052,302	4,025,559

(Thousands of yen)

	As of December 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	–	74,580
Lease obligations	741	741
Accounts payable - other	98,618	67,533
Accrued expenses	47,805	54,272
Income taxes payable	14,237	7,255
Deposits received	3,089	6,631
Total current liabilities	164,492	211,015
Non-current liabilities		
Lease obligations	2,409	2,223
Asset retirement obligations	11,838	11,862
Deferred tax liabilities	16,474	11,202
Total non-current liabilities	30,722	25,288
Total liabilities	195,214	236,304
Net assets		
Shareholders' equity		
Capital stock	2,793,458	2,793,458
Capital surplus	2,983,241	2,983,241
Retained earnings	(1,890,201)	(1,993,133)
Treasury shares	(21)	(21)
Total shareholders' equity	3,886,476	3,783,545
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(41,901)	(20,051)
Total accumulated other comprehensive income	(41,901)	(20,051)
Share acquisition rights	12,512	25,762
Total net assets	3,857,087	3,789,255
Total liabilities and net assets	4,052,302	4,025,559

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income (cumulative)

(Thousands of yen)

	First three months ended March 31, 2018	First three months ended March 31, 2019
Business revenue	396,371	347,798
Business expenses		
Cost of business revenue	18,944	88,372
Research and development expenses	386,879	209,634
Other selling, general and administrative expenses	230,618	154,015
Total business expenses	636,443	452,021
Operating loss	(240,071)	(104,223)
Non-operating income		
Interest income	2,074	2,635
Interest on securities	5,885	9,144
Foreign exchange gains	–	3,341
Gain on valuation of compound financial instruments	–	2,440
Other	1,870	31
Total non-operating income	9,829	17,592
Non-operating expenses		
Foreign exchange losses	54,082	–
Loss on valuation of compound financial instruments	840	–
Share issuance cost	528	8,702
Total non-operating expenses	55,450	8,702
Ordinary loss	(285,692)	(95,333)
Extraordinary losses		
Loss on redemption of investment securities	14,292	–
Total extraordinary losses	14,292	–
Loss before income taxes	(299,984)	(95,333)
Income taxes - current	11,740	7,670
Income taxes - deferred	(82)	(72)
Total income taxes	11,657	7,597
Loss	(311,641)	(102,931)
Profit attributable to non-controlling interests	–	–
Loss attributable to owners of parent	(311,641)	(102,931)

Consolidated statement of comprehensive income (cumulative)

(Thousands of yen)

	First three months ended March 31, 2018	First three months ended March 31, 2019
Loss	(311,641)	(102,931)
Other comprehensive income		
Valuation difference on available-for-sale securities	(56,225)	21,849
Total other comprehensive income	(56,225)	21,849
Comprehensive income	(367,867)	(81,081)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(367,867)	(81,081)
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statement of cash flows

(Thousands of yen)

	First three months ended March 31, 2018	First three months ended March 31, 2019
Cash flows from operating activities		
Loss before income taxes	(299,984)	(95,333)
Depreciation	21,656	34,292
Interest income	(2,074)	(2,635)
Interest income on securities	(5,885)	(9,144)
Foreign exchange losses (gains)	53,240	(2,344)
Loss (gain) on valuation of compound financial instruments	840	(2,440)
Share issuance cost	528	8,702
Loss (gain) on redemption of investment securities	14,292	–
Decrease (increase) in notes and accounts receivable - trade	133,410	(232,741)
Decrease (increase) in inventories	284	231
Increase (decrease) in notes and accounts payable - trade	191	74,580
Decrease (increase) in advance payments	171,933	1,296
Decrease (increase) in prepaid expenses	(160,676)	(157,688)
Increase (decrease) in accounts payable - other	37,587	(7,068)
Decrease (increase) in consumption taxes refund receivable	–	(5,360)
Other, net	(26,346)	9,875
Subtotal	(61,002)	(385,778)
Interest and dividend income received	7,845	11,359
Income taxes paid	(15,098)	(11,285)
Net cash provided by (used in) operating activities	(68,255)	(385,704)
Cash flows from investing activities		
Proceeds from redemption of securities	113,040	–
Purchase of property, plant and equipment	(71,082)	(58,687)
Purchase of intangible assets	–	(19,711)
Purchase of investment securities	(516,583)	–
Proceeds from redemption of investment securities	210,860	–
Other, net	(2,421)	(433)
Net cash provided by (used in) investing activities	(266,187)	(78,832)
Cash flows from financing activities		
Proceeds from issuance of shares resulting from exercise of share acquisition rights	64,748	–
Proceeds from issuance of share acquisition rights	–	4,547
Repayments of lease obligations	–	(185)
Net cash provided by (used in) financing activities	64,748	4,361
Effect of exchange rate change on cash and cash equivalents	(51,656)	2,372
Net increase (decrease) in cash and cash equivalents	(321,350)	(457,802)
Cash and cash equivalents at beginning of period	2,473,916	1,829,540
Cash and cash equivalents at end of period	2,152,565	1,371,738

(4) Notes to quarterly consolidated financial statements

Notes on premise of going concern

No items to report.

Notes on significant changes in the amount of shareholders' equity

No items to report.

Segment information, etc.

[Segment information]

I. For the first three months ended March 31, 2018 (January 1, 2018 to March 31, 2018)
This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

II. For the first three months ended March 31, 2019 (January 1, 2019 to March 31, 2019)
This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

Significant subsequent event

Reduction of capital stock and legal capital surplus as well as appropriation of retained earnings

Upon the resolution on a reduction of capital stock and legal capital surplus as well as appropriation of retained earnings at the 11th Ordinary General Meeting of Shareholders held on March 25, 2019, the Company made the resolution effective on May 1, 2019.

(1) Purpose of reduction of capital stock and legal capital surplus as well as appropriation of retained earnings
For eliminating the loss carried forward in retained earnings to restore the financial position and to enable it to distribute dividends from surplus and implement shareholder return measures, such as purchase of treasury stock, in the future, as well as ensuring the flexibility and mobility of the capital policy going forward.

(2) Outline of the reduction of capital stock as of the effective date

i) Amount of capital stock reduced
Capital stock of 2,799,625,432 yen has been reduced by 892,842,971 yen to 1,906,782,461 yen.

ii) Method of reduction of capital stock
Reduction of capital without compensation, whereby the total number of shares issued shall not be changed but part of capital stock has been reduced and transferred to other capital surplus.

(3) Outline of the reduction of legal capital surplus as of the effective date

i) Amount of legal capital surplus reduced
Legal capital surplus of 2,989,408,431 yen has been reduced by 892,842,971 yen to 2,096,565,460 yen.

ii) Method of reduction of legal capital surplus
Legal capital surplus has been reduced and transferred to other capital surplus.

(4) Outline of the appropriation of surplus
Pursuant to provisions of Article 452 of the Companies Act, the entire amount of other capital surplus of 1,785,685,942 yen in effect after the above mentioned resolution has been transferred to retained earnings brought forward to cover the loss.

i) Items and amounts of surplus reduced
Other capital surplus: 1,785,685,942 yen

ii) Items and amounts of surplus increased
Retained earnings brought forward: 1,785,685,942 yen

(5) Schedule

i) Date of resolution of the Board of Directors: February 8, 2019

ii) Date of resolution of the Ordinary General Meeting of Shareholders: March 25, 2019

iii) Initial date of public notice for creditors to make objections: March 26, 2019

iv) Final due date for creditors to make objections: April 30, 2019

v) Effective date: May 1, 2019

(6) Other significant matters
Regarding the reduction of capital stock and legal capital surplus as well as appropriation of surplus, these actions are transfers among items in "Net Assets" in the balance sheet, and therefore, they have not changed the Company's net assets and there were no impact on its financial results.