# Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2019 [Japanese GAAP]

August 8, 2019

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Scheduled date of Ordinary General Meeting of Shareholders: September 26, 2019
Scheduled filing date of securities report: September 27, 2019
Scheduled starting date of dividend payments: —
Supplementary briefing materials on financial results: No
Explanatory meeting on financial results: Yes

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

**1. Financial Results for the Fiscal Year Ended June 30, 2019 (July 1, 2018 to June 30, 2019)**

(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 | % |
| Fiscal Year ended June 30, 2019 | 7,216 | 12.3 | 3,579 | 23.0 | 3,806 | 20.7 | 2,770 | 18.6 |
| Fiscal Year ended June 30, 2018 | 6,426 | 31.3 | 2,910 | 16.9 | 3,154 | 20.2 | 2,335 | 23.5 |

| | Net income per share | Diluted net income per share | Return on equity | Ordinary income to total assets | Operating income to net sales |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| Fiscal Year ended June 30, 2019 | 22.42 | 21.33 | 17.3 | 20.8 | 49.6 |
| Fiscal Year ended June 30, 2018 | 19.35 | 17.79 | 17.4 | 20.9 | 45.3 |

(Reference) Equity in earnings (losses) of affiliates Fiscal Year ended June 30, 2019: (96) million yen
Fiscal Year ended June 30, 2018: (26) million yen

(2) Financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| As of June 30, 2019 | 20,040 | 17,449 | 86.6 | 138.73 |
| As of June 30, 2018 | 16,502 | 14,708 | 88.6 | 119.31 |

(Reference) Equity As of June 30, 2019: 17,364 million yen
As of June 30, 2018: 14,623 million yen

(3) Cash flows

| | Cash flow from operating activities | Cash flow from investing activities | Cash flow from financing activities | Balance of cash and cash equivalents |
|---|---|---|---|---|
| | Million yen | Million yen | Million yen | Million yen |
| Fiscal Year ended June 30, 2019 | 4,480 | (1,258) | 28 | 6,853 |
| Fiscal Year ended June 30, 2018 | 1,022 | (4,245) | 170 | 3,505 |

**2. Payment of Dividends**

| | Annual dividends | | | | | Total dividends (Annual) | Dividend payout ratio | Dividends to net assets |
|---|---|---|---|---|---|---|---|---|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| Fiscal Year ended June 30, 2018 | - | 0.00 | - | 0.00 | 0.00 | - | - | - |
| Fiscal Year ended June 30, 2019 | - | 0.00 | - | 0.00 | 0.00 | - | - | - |
| Fiscal Year ending December 31, 2019 (forecast) | - | - | - | 0.00 | 0.00 | | - | |

**3. Financial Forecasts for the Fiscal Year Ending December 31, 2019 (July 1, 2019 to December 31, 2019) and the Fiscal Year Ending December 31, 2020 (January 1, 2020 to December 31, 2020)**

| | Net sales | Operating income | Ordinary income | Net income |
|---|---|---|---|---|
| | Million yen | Million yen | Million yen | Million yen |
| Fiscal Year ending December 30, 2019 | 1,000 or more | (900) or more | (800) or more | (600) or more |
| Fiscal Year ending December 30, 2020 | 10,000 or more | 5,300 or more | 5,400 or more | 4,000 or more |

(Note) As announced in "PeptiDream Announces Change to Fiscal Year and Partial Amendment to Articles of Incorporation" as of today, we plan to change the fiscal year end from the end of June to the end of December, subject to approval at the Ordinary General Meeting of Shareholders scheduled to be held on September 26, 2019. In the 14th fiscal year (Fiscal Year ending December 2019), which is the transitional period for the fiscal year change, we plan to have a six-month period from July 1, 2019 to December 31, 2019.

**[Notes]**

(1) 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 |

(2) Number of shares issued (common stock)

| | | | | |
|---|---|---|---|---|
| 1) Number of shares issued at the end of the period (including treasury stock) | As of June 30, 2019 | 125,310,400 Shares | As of June 30, 2018 | 122,714,400 shares |
| 2) Number of treasury stock at the end of the period | As of June 30, 2019 | 143,452 shares | As of June 30, 2018 | 143,417 shares |
| 3) Average number of shares during the period | Fiscal Year ended June 30, 2019 | 123,560,471 shares | Fiscal Year ended June 30, 2018 | 120,662,551 shares |

(Note) The number of treasury shares at the end of the period includes shares in the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E) (143,400 shares as of June 30, 2018, 143,400 shares as of June 30, 2019). In addition, the shares in the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E) are included in treasury shares excluded from calculating the average number of shares during the period (148,337 shares for the fiscal year ended June 30, 2018, 143,400 shares for the fiscal year ended June 30, 2019).

*These financial results are outside the scope of audit by a certified public accountant or an audit firm.

*Explanation on the appropriate use of operating forecasts and other special instructions

(Caution regarding forward-looking statements)

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.

(Caution regarding forward-looking statements)

The Company plans to hold an explanatory meeting on financial results for institutional investors on August 9, 2019 and intends to publish the presentation handout materials on its website immediately after the event.

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## 1. Analysis of Operating Results and Financial Position

### (1) Overview of Business Results for the Fiscal Year Under Review

During the twelve months ended June 30, 2019 (from July 1, 2018 to June 30, 2019), the Company continued to make excellent progress in leveraging the PDPS (Peptide Discovery Platform System) technology, its proprietary drug finding platform, across its three business segments; 1) Collaboration Discovery and Development, 2) PDPS Technology Transfer, and 3) In-House/Strategic Discovery and Development.

| 【The Company's business strategy】 | | Partners at the end of the fiscal year under review |
|---|---|---|
| 1 | Collaboration discovery and development agreements | 19 |
| 2 | PDPS non-exclusive technology license agreements | 7 |
| 3 | In-house/ Strategic partner agreements | 8 |

As of June 30, 2019, the Company's pipeline consisted of 101 discovery & development programs (representing an increase of 17 programs from the end of the prior fiscal year ending Jun 30, 2018). The below table is a snapshot of the number of program(s) currently at each stage of the discovery and development process, compared to the end of the prior fiscal year.

**【Company's Discovery & Development Pipeline】**

| | As of June30, 2018 | As of June30, 2019 |
|---|---|---|
| Total Number of Programs | 84 | 101 |
| Hit-to-Lead Stage | 34 | 39 |
| Lead-to-Pre-Clinical Stage | 8 | 10 |
| Clinical Candidate Stage | 4 | 5 |
| Phase I | 2 | 2 |
| Phase II | 0 | 0 |
| Phase III | 0 | 0 |

The figures in the above table include programs in the Collaboration Discovery and Development segment and the In-House/Strategic Discovery and Development segment, and DO NOT include programs in the PDPS Technology Transfer segment.

**In the Collaboration Discovery and Development segment;** On June 17, 2019, the Company announced the achievement of a development milestone in the discovery alliance with Germany-based Bayer AG ("Bayer"). The drug discovery milestone for the achievement of drug candidates meeting the hit milestone criteria, representing the 1st discovery program to reach this development stage. This achievement entitles PeptiDream to receive an undisclosed payment per the research collaboration and license agreement between both companies announced November 16, 2017. PeptiDream is eligible for potential additional future preclinical and clinical development milestones, commercial sales milestones, as well as royalties on future sales, as the discovery and development programs continue to advance.

On June 28, 2019, the Company announced a new peptide-drug conjugate ("PDC") collaboration agreement with Swiss-based Novartis ("Novartis"). Under the agreement, PeptiDream will use its proprietary Peptide Discovery Platform System (PDPS) technology for the identification of novel macrocyclic/constrained peptides for use as PDCs against multiple targets of interest selected by Novartis. Novartis will have exclusive rights to the program peptides for radionuclide payloads/conjugates and certain small molecule payloads/conjugates, for both therapeutic and diagnostic uses. Under the terms of the agreement, PeptiDream will receive an undisclosed upfront payment, R&D funding payments, and is eligible to receive additional pre-clinical, clinical, approval, and commercial sales milestones, as well as royalties on future sales of any commercialized products resulting from the collaboration.

The Company continues to receive various R&D support payments from its big pharma discovery and development partners,

in addition to being eligible for potential pre-clinical and clinical milestones payments as the programs advance, as well as being eligible for commercial sales milestones and royalties on net sales of any commercialized products. The Company looks forward to announcing future updates as additional milestones are met, and as allowed by the partner companies. In addition, the Company continues to receive considerable interest from multiple big pharma companies interested in partnering with the Company on discovery and development programs.

**In the PDPS Technology Transfer segment;** On April 18, 2019, the Company announced the completion of the technology transfer of the Company's PDPS technology to Shionogi. Under the terms of the nonexclusive license agreement entered into by the parties in June 2017, PeptiDream will receive an undisclosed milestone payment and is eligible to receive additional technology access payments, in addition to payments based on achievement of certain predetermined development milestones for any constrained peptides and/or small molecules discovered from use of the PDPS technology. In addition, PeptiDream is eligible to receive royalties on sales of certain products that arise from use of the PDPS technology.

On June 13, 2019, the Company announced the completion of the second phase of the technology transfer of the Company's PDPS technology to MSD (US-Merck &Co). Under the terms of the nonexclusive license agreement entered into by the parties in June 2018, PeptiDream will receive an undisclosed milestone payment and is eligible to receive additional technology access payments, in addition to payments based on achievement of certain predetermined development milestones for any constrained peptides and/or small molecules discovered from use of the PDPS technology. In addition, PeptiDream is eligible to receive royalties on sales of certain products that arise from use of the PDPS technology.

As of June 30, 2019, the Company has non-exclusively licensed its PDPS technology to 7 companies; Bristol-Myers Squibb (2013), Novartis (2015), Lilly (2016), Genentech (2016), Shionogi (2017), MSD (U.S.-Merck & Co. Kenilworth, NJ, USA)(2018), and MiraBiologics (2018). In accordance with all PDPS technology license agreements, the Company is not informed as to what specific discovery and development programs are being prosecuted by the licensee company until certain initial pre-clinical milestones are achieved. The Company continues to receive various technology license and management payments from the licensee companies, in addition to potential preclinical and clinical milestone payments as programs advance. In addition, the Company continues to receive interest from multiple companies interested in licensing the PDPS technology.

**In the In-House/Strategic Discovery and Development segment;** the Company's move to its new headquarters and research facilities in Kanagawa in August of 2017 provided much needed lab space and equipment capabilities for the Company to significantly expand its efforts in this segment, which the Company views as an important 3rd segment for future revenue growth. The Company continues to expand the number of In-House/Strategic Discovery and Development programs. The goal of these efforts is to develop the programs to at least the pre-Phase I stage, or potentially post-Phase I/II stage, before seeking to license these programs out to big pharma companies, leveraging the Company's existing network of partners, for significantly higher financials than can be attained from standard discovery and development deals. The Company has continually been expanding its capabilities in turning hit candidates identified from the PDPS technology into 1) peptide therapeutics, 2) peptide drug conjugates ("PDCs"), and 3) small molecule therapeutics. Programs being developed with Strategic partners, Strategic partners being companies that bring proprietary technology/know-how to combine with the Company's, are under a cost-sharing agreement, in which the costs of discovery and development are equally shared, allowing for the Company to have a far larger share in the program and future revenues if successful.

The Company continues to pursue a number of in-house fully-owned programs, in addition to the influenza HA program and the IL17 program, and looks forward to providing future updates as these programs progress toward the clinic.

The Company has previously announced strategic partnerships with six companies, one academic institution and one foundation; JCR Pharma, Modulus Discovery, Heptares, Kleo Pharma, Nihon Medi-Physics, POLA Chemical Industries ("POLA"), Kawasaki Medical School, and the Bill & Melinda Gates Foundation.

The Company and JCR Pharma on May 10, 2019, jointly announced the successful development of constrained peptides capable of carrying various therapeutic payloads across the blood-brain barrier (BBB) for delivery/targeting to the brain, arising from the joint research collaboration between the companies initiated in February 2016. Most therapeutics do not readily cross

the BBB into the brain, with only a small fraction of the drug ever entering the central nervous system (CNS), posing a significant challenge to the development of effective therapeutics for the treatment of CNS disorders. The developed peptide carriers, when conjugated to various therapeutic payloads (herein referred to as a peptide-drug conjugates or "PDC"), function to facilitate the transport of the payload across the BBB into the brain, thereby significantly increasing the amount of the therapeutic in the brain. Potential payloads range from antibody and protein therapeutics to nucleic acid, peptide, and small molecules drugs. The current peptides, when conjugated to therapeutic antibodies have proven extremely effective in animal models at targeting the therapeutic antibody to the brain. The companies will continue to investigate further applications of these peptides to other therapeutic payloads and undertake pharmacokinetic studies with a priority on small molecule payloads. The two companies are now focusing on the development of brain-targeting PDCs, utilizing the aforementioned peptide carriers, and have initiated third-party licensing activities. PeptiDream will lead third-party licensing activities to streamline process management and supply the peptide carriers for conjugation to interested third-parties' therapeutic payloads. The companies will share related revenues from licensing activities. The companies expect these peptide carriers to greatly accelerate the development of therapeutics for the treatment of CNS disorders and diseases to which no effective drugs are currently available.

The Company and Modulus Discovery are working to leverage the expertise of both companies to jointly discover and develop small molecule clinical candidates based on hit candidates identified from the PDPS technology against high value targets. Modulus Discovery is utilizing its computational chemistry technology and expertise to design small molecule candidates in collaboration with the Company and its our internal efforts. The companies jointly share the costs of the discovery and development programs and will co-own any resulting products. The Company has already identified hit candidate peptides against a number of high-value kinase targets, that exhibit the desired inhibition activity independent of ATP-binding (allosteric inhibitors), and the companies are working to attain the structural information needed to enable computational small molecule design efforts. The Company has previously made a strategic equity investment in Modulus and remains a strategic shareholder.

The Company and Heptares are working to discover, develop and commercialize novel therapeutics targeting Protease Activated Receptor 2 (PAR2), which is a well validated target for multiple indications in pain, cancer, and inflammatory disease. The strategic partnership brings together two powerful technologies, Heptares's StaR platform for GPCR target protein production and the Company's PDPS hit finding technology, in addition to considerable preclinical and clinical development capabilities. Under the agreement, the companies will jointly share the costs and will co-own any resulting products. As previously reported, the companies have identified high affinity and selective inhibitors against PAR2 and are now in the Hit-to-Lead phase of the program.

The Company and Kleo Pharmaceuticals ("Kleo") are working to co-discover and develop novel immune-oncology products in multiple indications. The Company will identify macrocyclic peptides using its PDPS technology against multiple oncology targets selected by Kleo, and in turn, Kleo will engineer those candidates into novel Antibody Recruiting Molecule ("ARMs"), Synthetic Antibody Mimic ("SyAMs") products, or Monoclonal Antibody Therapy Enhancers ("MATEs") products. The Company will receive a tiered share of the proceeds of any products based on the degree to which the Company funds development of the products. On June 18, 2019, the Company announced the first clinical candidate arising from the company's discovery and development alliance with New Havenbased Kleo Pharmaceuticals Inc. ("Kleo"), initiated in July of 2017. The clinical candidate is a CD38-ARM, a CD38 targeting antibody recruiting molecule (ARMTM) to treat multiple myeloma, will be its first product candidate to move into the clinic with anticipated human studies to commence in 2020. CD38-ARM is designed to recruit endogenous antibodies to multiple myeloma cancer cells, targeting them for destruction by natural killer (NK) cells and macrophages. CD38 is a validated multiple myeloma target, which is also overexpressed in chronic lymphocytic leukemia and other cancers. The molecule was chosen after showing positive signals towards safety and efficacy in preclinical models. The companies continue to make exciting progress on a number of additional ARM programs, as well as programs in Kleo's other immuno-oncology therapy platforms, Synthetic Antibody Mimics (SyAMs) and Monoclonal Antibody Therapeutic Enhancers (MATEs). PeptiDream and Kleo collaborate on programs according to the strategic alliance agreement and share in both costs and future revenues from such programs. This announcement follows PeptiDream's investment of $10 million USD (approximately 1.1 billion JPY) as a part of Kleo's Series B financing in 2018, raised to advance its first clinical candidates

through IND-enabling studies and into the clinic in 2020.

The Company and Nihon Medi-Physics (“NMP”) are working to discover, develop, and commercialize novel peptide-radioisotope (RI) conjugates for use as therapeutics and diagnostics. Company has been using its proprietary PDPS technology for the identification of novel peptides for use as Peptide-Drug Conjugates (PDCs). NMP has been pursuing the fusion of therapeutics with diagnostics; “Theranostics”, and is a leader in the research, development, and manufacturing of radiopharmaceuticals. The two companies will work together across a variety of programs to conjugate Company’s constrained peptides with NMP’s radioisotopes to create a new exciting class of therapeutic and diagnostic products. Under the terms of the deal, both companies will independently fund their efforts, and the development and commercialization rights will be shared between the companies under a cost-sharing structured arrangement. The companies will look to commercialize products in Japan & Asia, and potentially license out such products to the United States and Europe.

The Company and POLA Chemical Industries (“POLA”) are working to discover and development of dermatology focused peptide-based cosmetics, quasi-drugs, and therapeutics. The Company will identify candidates using its PDPS technology against applicable dermatological targets based on POLA’s extensive expertise in the field and work together to commercialize such products. The company would lead the development of any therapeutics, arising from the collaboration. In addition, the company will expand its application of the PDPS technology to the discovery and development of peptides for use as quasi-drugs and cosmetics which are led by POLA.

The Company and Kawasaki Medical School are working to develop a peptide therapeutic for the treatment of Duchenne Muscular Dystrophy (“DMD”), a genetic disorder characterized by progressive muscle degeneration and weakness to which there are no effective treatments. Administration of the jointly developed candidate peptide significantly reduced muscle degeneration and weakness in an animal model of DMD, validating this peptide candidate as a potentially breakthrough treatment for DMD. The Company and the Medical School are continuing preclinical development with the aim of bringing this candidate into human testing in the near future.

The Company and the Bill & Melinda Gates Foundation (“Gates Foundation”) are working on multiple discovery and development programs aimed at identifying novel therapeutic macrocyclic peptide candidates to treat Malaria and Tuberculosis, two infectious diseases that disproportionately affect people in the world’s poorest countries. Under the terms of the grant, any Gates Foundation-funded products will be made available by Company at an affordable price in poor countries, and the Company will be able to merchandise each Gates Foundation-funded product in developed countries on its own, through licensees or a combination of both.

The Company expects to continue to form strategic partnerships with select-technology-leading bioventures and leading institutions, both in Japan and abroad, to accelerate and expand our clinical pipeline of best-in-class and first-in-class medicines.

The Company has previously announced, along with Shionogi & Co., and Sekisui Chemical Co., Ltd, the formation of PeptiStar Inc., a Contract Development and Manufacturing Organization (“CDMO”) for the research and commercial manufacture of peptide therapeutics. PeptiStar will bring together the most cutting-edge technologies and innovations in large-scale peptide production from various companies throughout Japan in order to manufacture therapeutic peptides of the highest quality and purity, while simultaneously driving down the cost of production. It is anticipated that PeptiStar will become the go-to CMO for all of the Company’s discovery and development partners, in addition to the Company’s own in-house/strategic partnered programs. The PeptiStar manufacturing facility will be located in Osaka, with a planned opening in the fall of 2019. On July 10, 2019, PeptiStar held a completion ceremony at its headquarters and plant, with many guests representing Osaka Prefecture, Settsu City, customers, shareholders, and so on.

The Company continues its commitment to promoting ESG (Environmental, Social, and Governance) initiatives, and will continue to strive to meet the highest standards for environmental responsibility, social promotion, and good corporate governance. In June 2019, the Company expressed support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As of June 30, 2019, the Company had a total of 120 employees (approximately 40% of employees are women; 127 employees when including executive officers), representing an addition of 17 employees during the Q4 quarter. The Company also has the equivalent of 15 chemists in China, through a contract research organization (“CRO”), working on amino acid and

small molecule chemistry.

As a result, the Company reported net sales of 7,216,622 thousand yen (increased 789,731 thousand yen year on year), operating income of 3,579,781 thousand yen (increased 668,801 thousand yen year on year), ordinary income of 3,806,852 thousand yen (increased 652,362 thousand yen year on year), and net income of 2,770,141 thousand yen (increased 434,924 thousand yen year on year) for the fiscal year ended June 30, 2019. Sales and income for the fiscal year were record highs for the Company, driven by various partnered discovery and development payments and PDPS licensing income. In addition, sales, operating income, ordinary income and net income were all in line with the Company's full-year forecast announced in August 2018.

The Company operates in a single business segment, and thus statements for segment information are omitted.

## (2) Overview of Financial Position for the Fiscal Year Under Review

Total assets at the end of the fiscal year under review increased by 3,537,940 thousand yen from the end of the previous fiscal year to 20,040,205 thousand yen. This was mainly because cash and deposits increased by 3,347,801 thousand yen, accounts receivable-trade decreased by 116,445 thousand yen and investment securities increased by 1,277,898 thousand yen.

Liabilities increased by 797,601 thousand yen from the end of the previous fiscal year to 2,591,150 thousand yen. This was mainly because income taxes payable increased by 180,731 thousand yen, advances received increased by 327,003 thousand yen, and provision for directors' share benefits increased by 64,243 thousand yen.

Net assets increased by 2,740,339 thousand yen from the end of the previous fiscal year to 17,449,054 thousand yen. This was mainly because retained earnings increased by 2,770,141 thousand yen, capital stock increased by 14,558 thousand yen, and capital surplus increased by 14,558 thousand yen.

## (3) Overview of Cash Flows for the Fiscal Year Under Review

Cash and cash equivalents for the fiscal year under review increased by 3,347,801 thousand yen from the end of the previous fiscal year to 6,853,150 thousand yen.

Status of cash flows and related factors during the current fiscal year are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 4,480,938 thousand yen (increase in inflow of 3,458,222 thousand yen year on year). This was mainly due to the recording of income before income taxes of 3,806,852 thousand yen for the year, the recording of depreciation of 501,224 thousand yen and a decrease in notes and accounts receivable – trade of 116,445 thousand yen, despite income taxes paid amounting to 970,757 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 1,258,726 thousand yen (decrease in outflow of 2,986,667 thousand yen year on year). This was due to 152,909 thousand yen for purchase of property, plant and equipment, 42,110 thousand yen for purchase of intangible assets and 1,336,298 thousand yen for purchase of investment securities, despite 272,647 thousand yen for proceeds from subsidy income.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 28,508 thousand yen (decrease in inflow of 141,779 thousand yen year on year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 28,658 thousand yen.

(Reference) Cash flow-related indices

| | Fiscal Year ended June 30, 2015 | Fiscal Year ended June 30, 2016 | Fiscal Year ended June 30, 2017 | Fiscal Year ended June 30, 2018 | Fiscal Year ended June 30, 2019 |
|---|---|---|---|---|---|
| Equity ratio (%) | 89.1 | 85.6 | 89.4 | 88.6 | 86.6 |
| Equity ratio based on market capitalization (%) | 2,447.3 | 2,870.1 | 2,989.8 | 3,428.1 | 3,445.4 |
| Ratio of interest-bearing liabilities to cash flows (%) | — | — | — | — | — |
| Interest coverage ratio (%) | — | — | — | — | — |

Equity ratio: Shareholders' equity / total assets

Equity ratio based on market capitalization: Market capitalization of shares / total assets

Ratio of interest-bearing liabilities to cash flows: Interest-bearing liabilities / cash flows

Interest coverage ratio: Cash flows / interest expense

(Notes)

1. Market capitalization of shares is calculated by multiplying the closing share price at the end of the period by the number of shares issued at the end of the period (excluding treasury stock). It should be noted that the Company does not hold treasury stock.
2. For cash flows, operating cash flows are used.
3. Figures of ratio of interest-bearing liabilities to cash flows and interest coverage ratio for the fiscal years ended June 30, 2015 through 2019 are not stated because the Company did not hold interest-bearing liabilities.

## (4) Forecast for the 2019-2020 Fiscal Year

The Company plans to change the fiscal year from June to December, as disclosed on August 8, 2019, "Change in Fiscal Year (closing date of business year)"

With regards to Company's financial results for the fiscal year ending December 31, 2019, the Company forecasts net sales of 1,000 million yen or more, operating loss of 900 million yen or more, ordinary loss of 800 million yen or more, and net loss of 600 million yen or more. With regards to Company's financial results for the fiscal year ending December 31, 2020, the Company forecasts net sales of 10,000 million yen or more, operating income of 5,300 million yen or more, ordinary income of 5,400 million yen or more, and net income of 4,000 million yen or more.

From August of 2017 the Company started full-scale operations at its new headquarters/R&D center located directly across from Haneda Airport in Kanagawa Prefecture, allowing for the Company to expand not only its research staff but also necessary equipment and capabilities to meet its future growth targets and objectives. This expansion, started during the 2017-2018 fiscal year, will continue into the 2018-2019 fiscal year, as the Company expands its abilities to not only discovery and development constrained peptide therapeutics, but also to discover and development small molecule therapeutics and peptide-drug-conjugates (PDCs), both of which are anticipated to significantly add to future revenue and growth. The expanded capabilities and increased headcount will allow the Company to continue to meet all the needs of its current partners, while also allowing the Company to take on new partners and further expand on existing collaborations/partnerships.

Furthermore, by promoting efficiency and automation of PDPS, we will increase the program speed and increase the number of programs that can be implemented in parallel. With the full-scale operation of PeptiStar, we expect to accelerate development at our partners.

The Company expects to continue to invest in the strategic expansion of both in-house drug discovery programs and strategic partnered programs to accelerate the progress of the Company's internal drug pipeline. These efforts are expected to contribute to the achievement of the Company's medium-term targets and generate significant future revenue and growth. The Company expects to provide more information regarding these efforts in the near future. In addition, the Company's strategic discovery and development programs with Kleo have made exciting progress and the Company plans to spend roughly 400 million yen for IND-enabling studies and application during the fiscal year ending December 31, 2019, and advance the first clinical candidate into the clinic in early 2020.

For the fiscal year ending December 31, 2019, the Company forecasts a temporary operating loss due to the shortened fiscal year, as well as an expected increase in R&D expenses for advancing clinical candidates into the clinic. For the fiscal year ending December 31, 2020, the Company expects to return to its double-digit growth trend in both sales and profits, and maintain this going forward, while sustainably increasing the Company's corporate value.

【Company Performance (Prior Five Fiscal Years and Current Forecast for 2019-2020 Fiscal Year) 】

| | Before change in Fiscal Year | | | | | After change in Fiscal Year | |
|---|---|---|---|---|---|---|---|
| | Fiscal Year ended June 30, 2015 | Fiscal Year ended June 30, 2016 | Fiscal Year ended June 30, 2017 | Fiscal Year ended June 30, 2018 | Fiscal Year ended June 30, 2019 | Fiscal Year ending Dec. 31, 2019 | Fiscal Year ending Dec. 31, 2020 |
| | 2014/July ~ 2015/June | 2015/July ~ 2016/June | 2016/July ~ 2017/June | 2017/July ~ 2018/June | 2018/July ~ 2019/June | 2019/July ~ 2019/Dec. | 2020/Jan. ~ 2020/Dec. |
| Net sales (JPY millions) | 2,474 | 4,327 | 4,895 | 6,426 | 7,216 | 1,000 or more | 10,000 or more |
| Changes from the previous corresponding period (%) | 202.2 | 74.9 | 13.1 | 31.3 | 12.3 | ― | ― |
| Operating profit (JPY millions) | 1,391 | 2,548 | 2,490 | 2,910 | 3,579 | (900) or more | 5,300 or more |
| Changes from the previous corresponding period (%) | 590.9 | 83.2 | △2.3 | 16.9 | 23.0 | ― | ― |
| Operating income to net sales (%) | 56.2 | 58.9 | 50.1 | 45.3 | 49.6 | ― | 53.0 |

【Other key indices】

| | Before change of period | | | | | After change of period | |
|---|---|---|---|---|---|---|---|
| | Fiscal Year ended June 30, 2015 | Fiscal Year ended June 30, 2016 | Fiscal Year ended June 30, 2017 | Fiscal Year ended June 30, 2018 | Fiscal Year ended June 30, 2019 | Fiscal Year ending Dec. 31, 2019 | Fiscal Year ending Dec. 31, 2020 |
| | 2014/July ~ 2015/June | 2015/July ~ 2016/June | 2016/July ~ 2017/June | 2017/July ~ 2018/June | 2018/July ~ 2019/June | 2019/July ~ 2019/Dec. | 2020/Jan. ~ 2020/Dec. |
| Capital Expenditures (JPY millions) | 1,303 | 1,890 | 1,890 | 2,436 | 185 | 200 | 500 |
| Depreciation Expense (JPY millions) | 103 | 124 | 174 | 493 | 501 | 253 | 533 |
| Research and Development Expenses (JPY millions) | 88 | 228 | 362 | 921 | 1,141 | 973 | 1,687 |
| Year-end headcount (people) | 46 | 52 | 67 | 91 | 120 | 128 | 150 |

* The amount that will actually be paid is shown for capital expenditures.

The Company has re-evaluated the content disclosed for its medium-term outlook and shall continue to disclose medium-term targets. Medium-term targets by the end of June, 2022, or in three years' time, are described below.

| 【Medium-term targets】 | | |
|---|---|---|
| 1 | Bringing to market new drugs (approval and sales) | 1 or more |
| 2 | Number of companies with which the Company has discovery and optimization agreements | 25 or more |
| 3 | Number of companies to which the Company gives PDPS non-exclusive technology license agreements | 8 or more |
| 4 | Number of projects for which clinical trials begin | 10 or more |
| 5 | Number of employees at the end of June, 2022 | 170 or more |

The number of employees has been changed from 120 to 170 to accelerate the speed to monetize various alliance programs.

To realize the Company's dream of "we wish to work toward hearing 'Thank you' from people battling disease," measures to realize this dream will be accelerated.

## (5) Basic Policy for Profit Distribution and Dividends for the Fiscal Year under Review and the Following Fiscal Year

The Company acknowledges that returning profits to shareholders is an essential management issue and intends to consider profit distribution taking into account its operating results and financial position. However, for the time being the Company is focusing on maintaining internal reserves and placing priority on securing research and development funds.

## (6) Business Risks

The following are matters that could potentially become major risk factors associated with the business development and/or other activities of the Company. For the purpose of proactive information disclosure to investors, the Company has also included risks that are not necessarily perceived to be material to the Company and risks that are less likely to materialize, as long as they are thought to be significant from the perspective of investment decisions by the investor or for better understanding the business activities of the Company. Upon recognizing the possibility of these risks, the Company has set its policy to make every effort to prevent such risks from materializing and to minimize their impact when they occur, but does not guarantee that such risks will

be prevented altogether. It should also be noted that the following is by no means an exhaustive list of all possible risks facing the Company.

Forward-looking statements hereunder are based on the Company's judgment as of the release date of this document and involve inherent uncertainties, and therefore the actual results may differ.

1) Risks arising from business environment

(i) Potential of nonstandard constrained/macrocyclic peptides as pharmaceuticals

The nonstandard constrained/macrocyclic peptides of the Company includes not only the 20 L-amino acids that are used to naturally make proteins, but also D-amino acids, N-methyl amino acids, and other amino acid derivatives, etc. collectively referred to as nonstandard amino acids. This ability enables the Company to create various highly diverse nonstandard constrained/macrocyclic peptide libraries from which nonstandard constrained/macrocyclic peptides that exhibit high affinity and specificity against the target protein, which maintain high in-vivo stability and cell membrane permeability, can be identified.

Owing to this feature, the nonstandard constrained/macrocyclic peptides of the Company are expected to represent a new therapeutic class of molecules, and such expectations have led to and continue to lead to discovery and development agreements with pharmaceutical companies.

The Peptide Discovery Platform System (PDPS) of the Company arose in 2010. Pharmaceuticals, in general, require a significant amount of development costs and time (10 years or more) from basic research until obtaining marketing authorizations, etc. It has not been long since the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology was created and thus to date, no novel drug generated from nonstandard constrained/macrocyclic peptides of the Company has been approved. (However, novel drugs generated from organic compounds incorporating nonstandard amino acids that exist in nature have been approved. For example, in 1983, Sandoz Pharmaceuticals AG of Switzerland launched an immunosuppressive drug named "Sandimmune," and this was created by a peptide (cyclosporine) with a nonstandard structure, produced by a fungus found in the soil of the Hardanger Plateau in southern Norway).

Going forward, in cases where novel drugs cannot be developed from nonstandard constrained/macrocyclic peptides of the Company, or in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot beneficially contribute to the clients' drug development efforts, the Company's business strategies and operating results may be negatively impacted.

(ii) Technology innovation

The Peptide Discovery Platform System (PDPS) of the Company incorporates a variety of technologies that are necessary for using nonstandard constrained/macrocyclic peptides as therapeutic candidates (i.e., technologies (A) to produce nonstandard constrained/macrocyclic peptides, (B) to generate/produce libraries with high diversity compared with low-molecular weight pharmaceuticals and antibody pharmaceuticals and (C) to rapidly conduct screening). The Company considers that the technologies (A) to (C) are all superior to those technologies of other companies that also discover and develop peptides as therapeutic candidates.

However, technology is always evolving, and there is always a chance that a technology superior to the PDPS of the Company will be developed, by utilizing a technology that does not conflict with the patented technology of the Company.

The Company intends to continue to actively perform research and development and to endeavor to secure intellectual property rights necessary for the PDPS technology, for the continued upgrade and evolution of the PDPS technology. However, if a technology superior to the PDPS is developed, the Company's competitive advantage will decrease and, as a result, the Company's business strategies and operating results may be negatively impacted, with more of such cases where agreements under conditions desired by the Company can no longer be entered into with the clients.

2) Risks arising from business

(i)Business based on nonstandard constrained/macrocyclic peptide pharmaceuticals

The Company has been conducting its business operations specializing in nonstandard constrained/macrocyclic peptide pharmaceuticals. Therefore, nonstandard constrained/macrocyclic peptides produced by the Peptide Discovery Platform System (PDPS) of the Company have novelty and inventiveness leading to high originality, thus the Company believes that it is unlikely that alternative technologies could be easily developed to put the existence value of the Company at risk. However, in cases where pharmaceutical companies' views change regarding the value of nonstandard constrained/macrocyclic peptides and also in cases where the Company's nonstandard constrained/macrocyclic peptide drug discovery and development technology cannot contribute to the clients' drug development efforts, the Company's business strategies and operating results may be negatively impacted.

Recently, by using nonstandard constrained/macrocyclic peptides as search markers, it has become apparent that this can lead to development of low-molecular weight pharmaceuticals, and the range of applicability for PDPS has significantly widened. As a result, business operations that specialized in nonstandard constrained/macrocyclic peptides is undergoing change, and while making inroads into the industry with PDPS as a foundation in drug discovery and development based on nonstandard constrained/macrocyclic peptides, the Company is attempting to expand use into development of low-molecular weight pharmaceuticals, in addition to nonstandard constrained/macrocyclic peptides. In cases where the Company cannot contribute to the development of low-molecular weight pharmaceuticals, the Company's business strategies and operating results may be negatively impacted.

(ii) Conducting joint research and development with multiple pharmaceutical companies

As of the release date of this document, the Company has entered into joint research and development agreements with nineteen companies (seven domestic, twelve overseas). Each pharmaceutical company has its specific target(s) for drug discovery and development, for which the Company will prosecute by receiving proposals concerning the research and development of, but in rare cases, the target for drug discovery and development may be requested by multiple pharmaceutical companies. Whenever such cases arise, the Company has a formal process for determining which pharmaceutical company has priority. Until now, no issue with this process has occurred.

However, in cases hereafter where this kind of coordination becomes difficult, the Company will not be able to enter into new joint research and development agreements and to acquire new target proteins, and thus the Company's business strategies and operating results may be negatively impacted.

(iii) Revenue recognition

The sales category of the Company for joint research and development agreements is, in principle, composed sequentially of (A) upfront payments (technological access fees), (B) funding for research and development, (C) funding for additional research and development, (D) premiums for drug discovery and development (E) incentives for reaching preclinical and/or clinical development goals (milestones), (F) royalties on net sales, and (G) incentives for reaching sales targets.

Although (A) upfront payments (technological access fees), (B) funding for research and development, and (C) funding for additional research and development significantly rely on the operational success of the Company, for (B) and (C) in particular, project termination resulting from client's policy changes, can result in a situation where ongoing revenue cannot be recognized, as the research and development activities cease. As for (A), whose amount is often relatively larger than that of (B) and (C), such revenue is recognized at one time, which means that the operating results of the Company could be negatively impacted by (A).

(D) Premiums for drug discovery and development and (E) incentive for reaching goals significantly rely on the business progress and strategy of the client, which are sales categories that are largely out of the control of the Company.

Therefore, in cases where the client's development progress is slowed, deprioritized or delayed, or in cases where the client's development strategy is changed, etc., the Company's business strategies and operating results may be negatively

impacted.

(iv) Possibility of legal disputes

The Company, during the course of conducting its business operations, in cases where it violates the rights or interests of a third party or in cases where the counterparty considers that it did, even though it actually did not, legal disputes such as lawsuits for damages, etc. may occur.

As of the release date of this document, no legal dispute has occurred nor has any formal litigation initiated, however, a foreign bio-venture is arguing that the Company's business conflicts with the foreign company's patent rights, and thus a legal dispute with the bio-venture may occur in the future. The possibility that the Company might preemptively take legal action toward the invalidation of the patent right(s) of the foreign bio-venture in question remains possible. In the future, when a legal dispute occurs between a third party and the Company, dispute resolution may require certain resources in addition to time and money and the Company can also be exposed to reputation risks resulting from the legal dispute, regardless of the final outcome. In such cases, the Company's business strategies and operating results may be negatively impacted.

In the course of future business operations, conflicts with patent rights, etc. of other companies may limit the Company's business, and in such cases, the Company's business strategies and operating results may be negatively impacted.

Furthermore, there exist no examples of the Company's nonstandard constrained/macrocyclic peptide pharmaceuticals researched and developed jointly by the Company and a pharmaceutical company commercially launched as pharmaceuticals to date. Therefore, in the unlikely event that the pharmaceutical researched and developed jointly by the Company causes unforeseen health problems, the negative image/reputation may adversely affect the reliability of the Company and its Peptide Discovery Platform System (PDPS) and thus the Company's business strategies and operating results may be negatively impacted.

(v) Material business agreements

As for agreements considered to be important or material to the Company's business operations, in cases where such agreements are terminated or in cases where changes are made to the counterparty's strategic plans, the Company's business strategies and operating results may be negatively impacted.

Further, revenue/funding related to joint research and development agreements (corresponding to or represented as sales for the Company) are, in principle, received as advances to the Company, which in turn is not obligated to return the money even in cases of early termination of the agreements. In exchange for this benefit, the counterparty holds the right to terminate the agreement at its discretion.

(vi) Dependence on counterparties of joint research and development agreements

Revenue in the Alliance business of the Company is mostly from counterparties of joint research and development agreements (clients). Going forward, in cases where the joint research and development for novel target molecules are not commenced with the clients or in cases where results of the joint research and development do not meet the criteria required by the clients, the Company's business strategies and operating results may be negatively impacted.

In addition, for lead compounds licensed out by the Company, the client conducts the clinical trials and applies for regulatory approval and thus their progress and results significantly affect the Company's business strategies and operating results. Although the Company will support the client even after licensing out, clinical trials and applications for approval should be carried out by the client and those are beyond the control of the Company. Therefore, the possibility that the progress of clinical trials and/or applications for regulatory approval might be delayed due to reasons unexpected by the Company and that clinical trials and applications for approval might be terminated for various reasons, exists.

Furthermore, marketing plans after obtaining approval for manufacturing and sale rest solely with the clients, and thus there are possibilities such that marketing plan targets cannot be achieved due to factors such as changes in the clients'

management policies or marketing plans and deterioration in the business environment.

Furthermore, as significant funds are required for the research and development of drugs, organizational restructuring and M&A are active in this industry. Clients may restructure organization or acquire competing firms (or acquired by competing firms), causing the competitive landscape within the industry to be changed drastically within short periods of time. If such large-scale corporate organizational restructuring occurs at the Company's clients, the Company's business strategies and operating results may be negatively impacted.

(vii) Product pipeline of the Company (in-house drug discovery programs)

The Company is promoting research and development of its own in-house product pipeline (in-house drug discovery programs) utilizing the characteristics of nonstandard constrained/macrocyclic peptides.

As things stand, the Company takes a two-pronged approach to development: Use of nonstandard constrained/macrocyclic peptides as pharmaceuticals, and development of PDC for use in combination with other drugs, leveraging the excellent selectivity of nonstandard constrained/macrocyclic peptides. In addition, through using nonstandard constrained/macrocyclic peptides as search markers, this can lead to development of low-molecular weight pharmaceuticals, and the Company has begun development of low-molecular weight pharmaceuticals in its internal pipeline.

As an outcome of measures to use nonstandard constrained/macrocyclic peptides as drugs, the Company made an announcement in April 2014 regarding measures related to an anti-influenza agent, and progress conditions of the above were announced in February 2015. Subsequently, the Company designated development number "PD-001," which significantly improves the active agent and internal dynamics of previous nonstandard constrained/macrocyclic peptides, as a new development candidate nonstandard constrained/macrocyclic peptide, and an announcement was made to conduct GLP-compliant pre-clinical trials following the acquisition of GLP-compliant progenitors.

Regarding PDCs, full-scale operations began from the fiscal year ended June 30, 2016, and joint research is already underway with several pharmaceutical companies.

With regard to the in-house product pipeline, if research and development progress smoothly and pre-clinical trials are conducted at the Company's expense, the Company may find itself incurring significant development costs. However, if progress in research and development of the in-house product pipeline is not smooth, there is a risk of losing certain options for future commercialization.

(viii) About strategic alliances with other companies and success or failure of corporate acquisitions, etc.

With the intent of strengthening competitiveness and expanding business scope, etc., the Company may make strategic alliances, etc. through transferring business divisions from other companies, acquiring other companies, entering into business alliances with other companies, establishing joint ventures, or making investments in other companies (hereinafter "Strategic alliances, etc.") Regarding such Strategic alliances, etc., there are possibilities such as the possibility that the alliance or integration does not proceed smoothly with the partner company due to differing views, the possibility that initially expected results cannot be attained, and the possibility that the investment amount cannot be recovered, either in part or in whole. Additionally, there is the possibility that the partner company may make decision that conflicts with the Company's benefit, and in cases such as when the partner company makes changes to its business strategy, there is the possibility that it may become difficult for the Company to maintain the relationship under the Strategic alliance, etc., and the Company's business strategies and operating results may be negatively impacted.

3) Intellectual property rights

(i) Acquisition of and application for patents

The Company engages in various inventions and patent rights in the course of its business, some of which have already been granted to the Company, the University of Tokyo or the State University of New York, while others are at various stages of the patent process.

However, it is possible that not all of the pending applications will be granted. In addition, even after receiving grant of patent rights, there remains the possibility that the item requested may be nullified via the patent objection claim system. There is also the possibility that a legal dispute concerning the patent right might arise, such as the filing of a patent violation lawsuit or request for a hearing on patent invalidation, resulting in some adverse effect to the right implemented by the Company.

There are other possibilities that the technology included in the patent right held by the Company might become obsolete due to emergence of a technology superior to the patent right held by the Company. When such a situation occurs, the Company's business strategies and operating results may be negatively impacted. In addition, the Company has obtained, through an agreement, the exclusive license, with the right to sublicense to a third party, with regard to various inventions or patent rights which the University of Tokyo or the State University of New York is the applicant. In such cases where the contents of the said agreement are subject to alterations or the agreement is terminated due to expiration or cancellation, etc., the Company's business strategies and operating results may be negatively impacted.

(ii) Internal assignment of employee inventions

When the Company receives a right to obtain a patent from an officer or employee, etc. who is the inventor of an invention, the Company will pay "reasonable consideration" that is provided for in the Patent Act. The Company has established rules for its handling in the internal rules, etc. and ensured awareness of them among executives and employees as well as strengthened operations. However, if issues such as payment claims for reasonable consideration arise in handling employee inventions, the Company's business strategies and operating results may be negatively impacted.

4) Risks related to the pharmaceutical research and development business

(i) Uncertainties in pharmaceutical development

Pharmaceutical development in general, not only requires a considerable amount of research and development investment and time, but also has a notably low success rate compared with other industries. Even for compounds considered to be promising at the early stages of research and development, research and development can fall behind schedule due to reasons such that useful effects are not discovered in the course of pre-clinical studies and clinical trials, leading to extension or cancellation of the development. When the development is extended, additional funding may be required and the remaining patent life will be shortened, affecting the recovery of funds invested. In addition, when the development is cancelled, the funds invested in the research and development may not be recovered.

(ii) Risks related to occurrence of adverse drug reactions

Pharmaceuticals can cause unexpected adverse drug reactions starting from the clinical trial stage to post-marketing. When such unexpected adverse drug reactions occur, claim litigation and loss of creditworthiness, etc. are all possible, to which the Company's business strategies and operating results may be negatively impacted.

(iii) Regulations concerning pharmaceutical affairs including the Pharmaceutical Affairs Act

The pharmaceutical industry is subject to various regulations including the Pharmaceutical Affairs Act of each country (the "Law on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices" in Japan) and other related laws and regulations regarding business activities of research, development, manufacturing and sales.

The product pipeline of the Company is now at the discovery and development, with no product yet having been approved for sale by the Ministry of Health, Labour and Welfare of Japan, U.S. Food and Drug Administration (FDA) and European Medicines Agency (EMA). However, the Company intends to apply for regulatory approval for manufacturing and sales of pharmaceuticals pursuant to various regulations of the Pharmaceutical Affairs Act of each country and to obtain such approval in the future.

Therefore, the Company is required to prepare an internal system that meets and adheres to the regulations from the various regulatory entities mentioned above. Moreover, the Pharmaceutical Affairs Act of each country and other related

laws and regulations are subject to change from time to time, and it is possible that these changes can affect the class of peptides Company is developing in either a positive or negative way, and that further improvement and amendment of the internal system might become necessary.

Compliance with such regulations shall affect the Company's business strategies and operating results.

(iv) Product liability

Development and manufacturing of pharmaceuticals are subject to the underlying risks of product liability. If any developed pharmaceutical causes adverse health issues or unintended side effects are found, whether in the course of clinical trials, manufacturing, operating or sales, in the future, the Company shall bear product liability and thus the Company's business strategies and operating results may be negatively impacted.

In addition, the negative image resulting from the product liability compensation claim can adversely affect the credibility of the Company and its pharmaceuticals, and thus the Company's business strategies and operating results may be negatively impacted.

(vi) Drug administration

The selling prices of drugs for medical use are affected by the regulations relating to drug prices of Japan and the governments of other countries. Thus far, the Company has not conducted an in-house clinical trial, and has adopted a policy of licensing out candidates for early development to clients. As a result, the Company's drug price strategy depends on its clients, and is indirectly affected by the drug price policies of Japan and the governments of other countries. In the event that the Company's development candidates are brought to market, if there are negative amendments to drug prices for the relevant drugs, or other amendments to medical insurance systems, the Company's financial position and operating results may be negatively impacted.

5) Risks associated with human resources and the organization

The Company believes that securing superior human resources with expert knowledge and experience in the research and development field is indispensable for elevating its drug discovery platform technology and advancing its drug discovery research and development. Should the Company encounter any obstacles in securing its human resources as planned, or lose any of its superior human resources, the Company's business strategies and operating results may be negatively impacted.

6) Other risks

(i) Dilution of the Company's stock value due to the exercise of stock acquisition rights

The Company has granted stock acquisition rights to its officers, employees and business partners, etc. Should such stock acquisition rights be exercised, the Company's number of shares outstanding would increase, and the value of the shares held by existing shareholders and the ratio of voting rights may become diluted. As of June 30, 2019, the number of dilutive shares to be increased by the exercisable subscription rights to shares was 4,700,000 shares, which is equivalent to 3.62% of the aggregate number of shares issued and dilutive shares.

(ii) Dividend policy

The Company recognizes returning profits to shareholders through dividends as one of its important management tasks.

Once steady predictable revenues have been attained, and enough revenue exists to cover the costs of research and development, upon comprehensively taking into account the necessity of enhancing internal reserves in preparation for future research and development activities, the Company will consider the profit distribution to its shareholders.

(iii) Information security

The Company's business involves receiving information on targeted proteins from client pharmaceutical companies.

For this reason, the Company makes every effort to prevent the leakage of corporate information by requiring its employees to sign confidentiality agreements relating to corporate information including customer information.

However, should a leak of corporate information including customer information occur, the Company may face a loss of public confidence and the Company's businesses, etc. may be negatively impacted.

(iv) Fluctuation of foreign exchange rates

Due to the large number of overseas pharmaceutical companies among the Company's clients, much of its sales are denominated in foreign currencies (mainly in US dollar) and affected by fluctuations of foreign exchange rates. Therefore, should fluctuations in foreign exchange rates occur, the Company's operating results and financial position may be negatively impacted.

(v) Occurrence of natural disasters, etc.

The Company has headquarters and research facilities in Tonomachi, Kawasaki, in Kanagawa Prefecture, and facilities and personnel relating to the Company's business activities and research and development activities are concentrated in the present location. As a result, if there is an earthquake, eruption, flood, or other natural damage, large-scale accident, terrorist attack, or other such incident in the vicinity of the present location, causing unexpected circumstances to occur, such as damage to the Company's facilities or supply restrictions from different types of infrastructure, the Company's business strategies and operating results may be negatively impacted.

(vi) Establishment of a CDMO (Contract Development and Manufacturing Organization)

In September 2017, the Company established a CDMO (trade name: "PeptiStar, Inc."; hereinafter, "PeptiStar") as a joint venture with Shionogi & Co., Ltd. and Sekisui Chemical Co., Ltd. in Settsu, Osaka Prefecture.

At present, the research and development of nonstandard peptide pharmaceuticals is conducted by pharmaceutical companies in Japan and overseas, but even on a global level, there is no CDMO that can provide a stable supply of high quality raw materials for nonstandard peptides at a low cost. Under these circumstances, the Company believes that establishing a CDMO with specialist technology relating to nonstandard peptide pharmaceuticals can contribute to promoting the Company's business and, by extension, expanding the market for nonstandard peptide pharmaceuticals. By strategically consolidating the state-of-the-art technology held by each of the domestic companies participating in the PeptiStar joint venture, the Company aims to eliminate bottlenecks relating to the development and sale of nonstandard peptide pharmaceuticals.

On March 30, 2018, the Company announced an investment of 1.8 billion yen into PeptiStar, giving the Company an ownership stake of 17.3% of PeptiStar, equal to that of both Shionogi and Sekisui Chemical. In addition, the Company intends to guarantee PeptiStar's debt, thereby making PeptiStar an affiliate of the Company. As a result, if PeptiStar cannot develop its business in the manner forecast by the Company at the time of investment, the Company's financial position and operating results may be negatively impacted, including an impairment of shares.

vii)The investment securities that the Company holds

The Company holds investment securities for the purpose of accelerating collaboration discovery and development. Since the values of the investment securities are determined by the circumstances of the stock issuing companies such as their financial conditions, operating results, etc., in the event that decreases in their real values call for an impairment, loss on valuation of investment securities will be posted, and thus the Company's operating results may be negatively impacted.

(viii) Harmful rumors

Should negative rumors about the Company, or the Company's related parties or business partners be spread by Analyst report and media coverage or be posted on the Internet, public confidence of the Company may be affected, regardless of whether there was any truth in the rumors. Should negative rumors about the Company, or the Company's related parties or

business partners be spread, the credibility of the Company may be adversely affected due to the negative image, and the Company's financial position and operating results may be negatively impacted.

## 2. Management Policies

### (1) Basic Management Policy

The Company's basic management policy is to leverage its proprietary PDPS (Peptide Discovery Platform System) to discover and develop nonstandard constrained/macrocyclic peptide pharmaceuticals in order to address unmet medical needs (medical needs for which there are no effective treatments) and to improve the quality of life of patients worldwide. To this end, the Company will contribute to the creation of a market for "nonstandard constrained/macrocyclic peptide pharmaceuticals" as a third major market following "low-molecular weight pharmaceuticals" and "antibody pharmaceuticals," and contribute to the progress of medicine around the world.

### (2) Medium- to Long-term Management Strategies

Please refer to Future Outlook for details of medium- to long-term management strategies.

### (3) Issues to be Addressed

The Company leverages its proprietary PDPS (Peptide Discovery Platform System) to conclude joint research and development agreements with pharmaceutical companies both in Japan and abroad for the purpose of conducting development of drugs that utilize nonstandard constrained/macrocyclic peptides.

The Company recognizes the following as issues that need to be addressed in order to sustain growth as a going concern.

(Issues associated with sales activities)

The Company has built relationships (joint research and development systems) that are mutually amicable and economically beneficial with pharmaceutical companies both in Japan and abroad, and the Company projects the conclusion of further joint research and development agreements in the future. The Company believes that in order to maintain and expand a smooth joint research and development system, strategic sales activities that move in step with establishment and enrichment of the research and development system are important.

(Issues associated with research and development activities)

The Company maintains and utilizes PDPS, and believes this system at the moment has huge technological advantages. Additionally, there are significant possibilities for the use of nonstandard constrained/macrocyclic peptides that are created via PDPS. To continue to uphold the advantage of this in-house technology, the Company is committed to strengthening its in-house research and development system while undertaking joint research with pharmaceutical companies and research institutions, etc. in Japan and overseas.

(Issues associated with internal management and controls)

The Company recognizes the reinforcement of its corporate governance as a major issue that needs to be addressed in order to develop its corporate structure as a going concern. The Company is aware that enhancement of the efficiency, soundness and transparency of management, and the long-term, stable and continuous improvement of its share value will be indispensable in winning the trust of each stakeholder, including its shareholders. The Company will, therefore, make every effort to develop an organization equipped with agility and company-level efficiency while keeping in mind the adequacy of business execution, and the efficiency and efficacy of its management functions.

## 3. Basic Approach to Accounting Standards

To facilitate comparison of financial data between different periods and different companies, the Company policy at the moment is to prepare financial statements based on Japanese GAAP.

While considering domestic and overseas needs, the Company intends to adopt the IFRS (International Financial Reporting Standards) when appropriate.

4. Financial Statements

(1) Balance Sheets

(Thousands of yen)

| | As of June 30, 2018 | As of June 30, 2019 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 3,505,349 | 6,853,150 |
| Accounts receivable - trade | 3,093,674 | 2,977,228 |
| Raw materials and stocks | 166,169 | 287,749 |
| Prepaid expenses | 99,115 | 91,152 |
| Other | 1,193,791 | 164,559 |
| Total current assets | 8,058,099 | 10,373,840 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 4,056,681 | 4,058,588 |
| Accumulated depreciation | (150,220) | (301,291) |
| Buildings, net | 3,906,460 | 3,757,297 |
| Structures | 187,958 | 191,148 |
| Accumulated depreciation | (12,261) | (24,593) |
| Structures, net | 175,697 | 166,554 |
| Tools, furniture and fixtures | 1,926,137 | 2,102,276 |
| Accumulated depreciation | (770,137) | (1,081,910) |
| Tools, furniture and fixtures, net | 1,155,999 | 1,020,365 |
| Land | 904,628 | 904,628 |
| Total property, plant and equipment | 6,142,785 | 5,848,846 |
| Intangible assets | | |
| Goodwill | 42,200 | 21,944 |
| Software | 73,101 | 66,238 |
| Other | 1,819 | 29,136 |
| Total intangible assets | 117,121 | 117,318 |
| Investments and other assets | | |
| Investment securities | - | 1,277,898 |
| Shares of subsidiaries and associates | 1,900,000 | 1,900,000 |
| Long-term loans receivable | 100,000 | 100,000 |
| Long-term prepaid expenses | 26,367 | 18,877 |
| Deferred tax assets | 150,269 | 261,265 |
| Other | 7,621 | 142,158 |
| Total investments and other assets | 2,184,258 | 3,700,200 |
| Total non-current assets | 8,444,165 | 9,666,364 |
| Total assets | 16,502,264 | 20,040,205 |

(Thousands of yen)

| | As of June 30, 2018 | As of June 30, 2019 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 36,219 | 63,008 |
| Accounts payable - other | 58,520 | 138,828 |
| Accrued expenses | 389,880 | 403,687 |
| Income taxes payable | 616,621 | 797,352 |
| Advances received | 339,809 | 666,813 |
| Deposits received | 80,660 | 98,230 |
| Other | 191,344 | 274,765 |
| Total current liabilities | 1,713,056 | 2,442,686 |
| Non-current liabilities | | |
| Provision for employee stock ownership plan trust | - | 3,728 |
| Provision for directors' share benefits | 80,493 | 144,736 |
| Total non-current liabilities | 80,493 | 148,464 |
| Total liabilities | 1,793,549 | 2,591,150 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 3,915,983 | 3,930,541 |
| Capital surplus | | |
| Legal capital surplus | 3,912,265 | 3,926,823 |
| Total capital surplus | 3,912,265 | 3,926,823 |
| Retained earnings | | |
| Other retained earnings | | |
| Retained earnings brought forward | 7,206,825 | 9,976,966 |
| Total retained earnings | 7,206,825 | 9,976,966 |
| Treasury stock | (411,420) | (411,570) |
| Total shareholders' equity | 14,623,653 | 17,422,761 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | - | (58,400) |
| Total valuation and translation adjustments | - | (58,400) |
| Subscription rights to shares | 85,062 | 84,693 |
| Total net assets | 14,708,715 | 17,449,054 |
| Total liabilities and net assets | 16,502,264 | 20,040,205 |

(2) Statements of Income

(Thousands of yen)

| | Fiscal year ended June 30, 2018 | Fiscal year ended June 30, 2019 |
|---|---|---|
| Net sales | 6,426,891 | 7,216,622 |
| Cost of sales | 1,778,626 | 1,651,254 |
| Gross profit | 4,648,264 | 5,565,367 |
| Selling, general and administrative expenses | 1,737,283 | 1,985,585 |
| Operating income | 2,910,980 | 3,579,781 |
| Non-operating income | | |
| Interest income | 1,728 | 6,390 |
| Foreign exchange gains | 20,593 | 59,622 |
| Operation consignment fee | 224,890 | 153,926 |
| Other | 535 | 7,334 |
| Total non-operating income | 247,748 | 227,274 |
| Non-operating expenses | | |
| Share issuance cost | 312 | 90 |
| Issuance cost of subscription rights to shares | 3,928 | - |
| Other | - | 114 |
| Total non-operating expenses | 4,240 | 204 |
| Ordinary income | 3,154,489 | 3,806,852 |
| Extraordinary income | | |
| Subsidy income | 681,619 | - |
| Total extraordinary income | 681,619 | - |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 3,642 | - |
| Loss on reduction of property plant and equipment | 680,735 | - |
| Total extraordinary losses | 684,378 | - |
| Income before income taxes | 3,151,730 | 3,806,852 |
| Income taxes - current | 830,083 | 1,147,706 |
| Income taxes - deferred | (13,569) | (110,996) |
| Total income taxes | 816,513 | 1,036,710 |
| Net income | 2,335,216 | 2,770,141 |

## (3) Statements of Changes in Equity

Fiscal year ended June 30, 2018

(Thousands of yen)

| | Shareholders' equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | Retained earnings | | Treasury stock | Total shareholders' equity |
| | | Legal capital surplus | Total capital surplus | Other retained earnings | Total retained earnings | | |
| | | | | Retained earnings brought forward | | | |
| Balance at the beginning of current period | 3,870,769 | 3,867,051 | 3,867,051 | 4,871,608 | 4,871,608 | (430,869) | 12,178,559 |
| Changes of items during period | | | | | | | |
| Issuance of new shares | 45,214 | 45,214 | 45,214 | | | | 90,428 |
| Net income | | | | 2,335,216 | 2,335,216 | | 2,335,216 |
| Acquisition of treasury stock | | | | | | (58) | (58) |
| Disposal of treasury stock | | | | | | 19,506 | 19,506 |
| Net changes of items other than shareholders' equity | | | | | | | |
| Total changes of items during period | 45,214 | 45,214 | 45,214 | 2,335,216 | 2,335,216 | 19,448 | 2,445,093 |
| Balance at the end of current period | 3,915,983 | 3,912,265 | 3,912,265 | 7,206,825 | 7,206,825 | (411,420) | 14,623,653 |

| | Valuation and translation adjustments | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance at the beginning of current period | - | - | 2,242 | 12,180,801 |
| Changes of items during period | | | | |
| Issuance of new shares | | | | 90,428 |
| Net income | | | | 2,335,216 |
| Acquisition of treasury stock | | | | (58) |
| Disposal of treasury stock | | | | 19,506 |
| Net changes of items other than shareholders' equity | | | 82,820 | 82,820 |
| Total changes of items during period | | | 82,820 | 2,527,913 |
| Balance at the end of current period | - | - | 85,062 | 14,708,715 |

Fiscal year ended June 30, 2019

(Thousands of yen)

| | Shareholders' equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | Retained earnings | | Treasury stock | Total shareholders' equity |
| | | Legal capital surplus | Total capital surplus | Other retained earnings | Total retained earnings | | |
| | | | | Retained earnings brought forward | | | |
| Balance at the beginning of current period | 3,915,983 | 3,912,265 | 3,912,265 | 7,206,825 | 7,206,825 | (411,420) | 14,623,653 |
| Changes of items during period | | | | | | | |
| Issuance of new shares | 14,558 | 14,558 | 14,558 | | | | 29,116 |
| Net income | | | | 2,770,141 | 2,770,141 | | 2,770,141 |
| Acquisition of treasury stock | | | | | | (149) | (149) |
| Disposal of treasury stock | | | | | | - | - |
| Net changes of items other than shareholders' equity | | | | | | | |
| Total changes of items during period | 14,558 | 14,558 | 14,558 | 2,770,141 | 2,770,141 | (149) | 2,799,108 |
| Balance at the end of current period | 3,930,541 | 3,926,823 | 3,926,823 | 9,976,966 | 9,976,966 | (411,570) | 17,422,761 |

| | Valuation and translation adjustments | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance at the beginning of current period | - | - | 85,062 | 14,708,715 |
| Changes of items during period | | | | |
| Issuance of new shares | | | | 29,116 |
| Net income | | | | 2,770,141 |
| Acquisition of treasury stock | | | | (149) |
| Disposal of treasury stock | | | | - |
| Net changes of items other than shareholders' equity | (58,400) | (58,400) | (368) | (58,768) |
| Total changes of items during period | (58,400) | (58,400) | (368) | 2,740,339 |
| Balance at the end of current period | (58,400) | (58,400) | 84,693 | 17,449,054 |

(4) Statements of Cash Flows

(Thousands of yen)

| | Fiscal year ended June 30, 2018 | Fiscal year ended June 30, 2019 |
|---|---|---|
| Cash flow from operating activities | | |
| Income before income taxes | 3,151,730 | 3,806,852 |
| Depreciation | 493,084 | 501,224 |
| Amortization of goodwill | 20,256 | 20,256 |
| Increase (decrease) in provision for directors' share benefits | - | 64,243 |
| Interest and dividend income | (1,728) | (6,390) |
| Foreign exchange losses (gains) | (1,058) | (97,080) |
| Share issuance cost | 312 | 90 |
| Subsidy income | (681,619) | - |
| Loss on retirement of non-current assets | 3,642 | - |
| Loss on reduction of property plant and equipment | 680,735 | - |
| Decrease (increase) in notes and accounts receivable - trade | (1,338,922) | 116,445 |
| Decrease (increase) in inventories | (166,169) | (121,580) |
| Decrease (increase) in prepaid expenses | (24,868) | 7,962 |
| Increase (decrease) in notes and accounts payable - trade | 12,427 | 26,788 |
| Increase (decrease) in accounts payable - other | (2,567) | 44,971 |
| Increase (decrease) in accrued expenses | 47,411 | 13,807 |
| Increase (decrease) in advances received | (17,394) | 327,003 |
| Increase (decrease) in deposits received | 4,349 | 17,570 |
| Other, net | (614,298) | 640,021 |
| Subtotal | 1,565,321 | 5,362,185 |
| Interest and dividend income received | 1,728 | 6,390 |
| Income taxes paid | (544,333) | (970,757) |
| Income taxes refund | - | 83,119 |
| Net cash provided by (used in) operating activities | 1,022,716 | 4,480,938 |
| Cash flow from investing activities | | |
| Purchase of investment securities | - | (1,336,298) |
| Purchase of shares of subsidiaries and associates | (1,900,000) | - |
| Proceeds from subsidy income | 136,323 | 272,647 |
| Purchase of property, plant and equipment | (2,437,268) | (152,909) |
| Purchase of intangible assets | (34,443) | (42,110) |
| Other | (10,005) | (55) |
| Net cash provided by (used in) investing activities | (4,245,393) | (1,258,726) |
| Cash flow from financing activities | | |
| Proceeds from issuance of shares resulting from exercise of subscription rights to shares | 88,936 | 28,658 |
| Proceeds from issuance of subscription rights to shares | 81,410 | - |
| Purchase of treasury shares | (58) | (149) |
| Net cash provided by (used in) financing activities | 170,287 | 28,508 |
| Effect of exchange rate change on cash and cash equivalents | 1,058 | 97,080 |
| Net increase (decrease) in cash and cash equivalents | (3,051,330) | 3,347,801 |
| Cash and cash equivalents at beginning of period | 6,556,679 | 3,505,349 |
| Cash and cash equivalents at end of period | 3,505,349 | 6,853,150 |

## (5) Notes to Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Changes in presentation method)

Changes upon Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year ended June 30, 2019.

Accordingly, as the Company changed the presentation method, deferred tax assets were presented under "Investments and other assets" and deferred tax liabilities were presented under "Non-current liabilities." As a result, in the balance sheet for the previous fiscal year, "Deferred tax assets" under "Current assets" decreased 140,643 million yen and "Deferred tax assets" under "Investments and other assets" increased 140,643 million yen.

(Segment information, etc.)

[Segment information]

The Company operates in a single business segment, the Alliance business segment. As such, statements for segment information are omitted because of immateriality.

(Equity in earnings and losses, etc.)

(Thousands of yen)

| | Fiscal year ended June 30, 2018 | Fiscal year ended June 30, 2019 |
|---|---|---|
| Investments in affiliates | 1,900,000 | 1,900,000 |
| Investments accounted for using the equity method | 1,873,847 | 1,777,091 |
| Losses on investments accounted for using the equity method | 26,152 | 96,756 |

(Per share information)

| | Fiscal year ended June 30, 2018 | Fiscal year ended June 30, 2019 |
|---|---|---|
| Net assets per share | 119.31 yen | 138.73 yen |
| Net income per share | 19.35 yen | 22.42 yen |
| Diluted net income per share | 17.79 yen | 21.33 yen |

(Notes) 1. Shares in the Company remaining in the trust and reported as treasury shares under shareholders' equity are included in treasury shares excluded when calculating the average number of shares during the period for the calculation of net income per share. In addition, these shares are included in the number of treasury shares excluded from the total number of shares issued at the end of the period for the calculation of net assets per share. When calculating net income per share and diluted net income per share, the average number of treasury shares during the period that is excluded is 148,337 shares for the fiscal year ended June 30, 2018 and 143,400 shares for the fiscal year ended June 30, 2019. When calculating net assets per share, the number of shares of treasury stock at the end of the period that is excluded is 143,400 shares for the fiscal year ended June 30, 2018 and 143,400 shares for the fiscal year ended June 30, 2019.

2. Net income per share and diluted net income per share are calculated based on the following basis:

| Items | Fiscal year ended June 30, 2018 | Fiscal year ended June 30, 2019 |
|---|---|---|
| Net income per share | | |
| Net income (thousands of yen) | 2,335,216 | 2,770,141 |
| Net income not attributable to common shareholders (thousands of yen) | — | — |
| Net income related to common stock (thousands of yen) | 2,335,216 | 2,770,141 |
| Average number of common stock during the period (shares) | 120,662,551 | 123,560,471 |
| Diluted net income per share | | |
| Adjustments for net income (thousands of yen) | — | — |
| Number of increase of common stock (shares) | 10,570,412 | 6,291,813 |
| (Subscription rights to shares) | (10,570,412) | (6,291,813) |
| Dilutive shares that do not have a diluting effect and thus were not included in the calculation of diluted net income per share | Seventh series stock acquisition rights (Number of stock acquisition rights: 24,000) | Seventh series stock acquisition rights (Number of stock acquisition rights: 24,000) |

3. Net assets per share are calculated based on the following basis:

| Items | As of June 30, 2018 | As of June 30, 2019 |
|---|---|---|
| Total net assets (thousands of yen) | 14,708,715 | 17,449,054 |
| Amounts deducted from total net assets (thousands of yen) | 85,062 | 84,693 |
| (Subscription rights to shares) (thousands of yen) | (85,062) | (84,693) |
| Amounts of net assets related to common stock at the end of the period (thousands of yen) | 14,623,653 | 17,364,361 |
| Number of common stock at the end of the period used for the calculation of net assets per share (shares) | 122,570,983 | 125,166,948 |

(Significant subsequent events)

Not applicable.