Consolidated Financial Results for the First Quarter FY2020 (IFRS)

May 13, 2020

Company name:	Sosei Group Corporation		Listing: Tokyo Stock Exchange
Security code:	4565	URL:	https://www.soseiheptares.com/
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Scheduled date of Quarterly Securities Report filing	May 13, 2020	Scheduled date of dividend payments:	—
Supplementary materials for financial results:	No		
Financial results briefing session:	No		

(Rounded million yen)

1. Consolidated results for 3 month period ended March 31, 2020 (from January 1, 2020 to March 31, 2020)

(1) Consolidated operating results (cumulative) (Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net profit before income taxes		Net profit		Net profit attributable to owners of the parent company		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3 month period ended March 31, 2020	1,162	(62.9)	(445)	—	(500)	—	(746)	—	(746)	—	(3,019)	—
3 month period ended March 31, 2019	3,136	275.8	1,061	—	929	—	1,018	—	1,018	—	1,944	—

	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
3 month period ended March 31, 2020	(9.69)	(9.69)
3 month period ended March 31, 2019	13.34	13.30

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets
	Million yen	Million yen	Million yen	%
At March 31, 2020	52,864	42,225	42,222	79.9
At December 31, 2019	56,680	45,078	45,075	79.5

2. Dividends

	Dividends per share				
	End Q1	End Q2	End Q3	End Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2019	-	0.00	-	0.00	0.00
FY2020	-				
FY2020 (E)		0.00	-	0.00	0.00

(Note) There is no change in dividends forecast from the previous disclosure.

3. Business outlook and financial forecast

Despite the challenging times due to the COVID-19 outbreak, the Group remains committed to delivering on its mission and vision, and to serving collaboration partners and patients in our clinical trials. The Group's smaller size enabled it to quickly enact flexible business continuity plans, and therefore we have continued to make steady progress across the business and remain well

positioned to capitalize on a number of strategic opportunities. We are taking steps to increase partnered activity, whilst simultaneously investing in technologies, tools and capabilities to advance an exciting pipeline of next-generation candidates that will form the basis of high value partnerships in the future.

The Group is continuing to drive a sustainable balance of resources and capital. Whilst we aim to pursue profitability, we recognize that the uncertainty caused by the COVID-19 outbreak is likely to impact on this goal in 2020.

As of March 31, 2020 our financial forecasts remain unchanged from December 31, 2019:

- Forecast cash R&D expenses in the range of JPY 4,200 to JPY 4,700 million[1].
- Forecast cash G&A expenses in the range of JPY 1,800 to JPY 2,300 million[2].
- We expect to receive upfront payments related to new partnerships.
- We expect to receive milestone payments from existing drug discovery and development partnerships.
- We will continue to invest in technologies, tools and capabilities to advance next-generation candidates; while strongly managing our cost base.

The Group has a cash runway into 2022 to fund its drug discovery and early-stage development activities.

* Notes

(1) Changes in the number of significant subsidiaries for the three-month period ended March 31, 2020 (changes of specified subsidiaries affecting the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates

1) Changes in accounting policies required by IFRS: None
2) Changes due to changes in accounting policies other than those of item 1: None
3) Changes in accounting estimates: None

(3) Number of common shares issued

1) Number of shares issued at period end (including treasury shares)	At March 31, 2020	77,113,726 shares	At December 31, 2019	77,073,135 shares
2) Number of treasury shares at period end	At March 31, 2020	213 shares	At December 31, 2020	213 shares
3) Average number of shares in issue in period	3 month period ended March 31, 2020	77,106,576 shares	3 month period ended March 31, 2019	76,310,108 shares

* Quarterly consolidated financial results reports are not subject to audit.

** Explanation regarding the appropriate use of forecasts of business results and other points to be noted*

Note concerning forward-looking statements: The financial forecast is based on judgements and estimates that have been prepared on the basis of information available as of the time of disclosure of this material. The actual business results may differ materially from the forecasts due to various factors.

[1] The assumed FX rate of USD:JPY 110
[2] The assumed FX rate of USD:JPY 110

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1. Analysis of Operating Results and Financial Position

(1) Analysis of operating results

The Group is a science and technology-led company, specializing in drug discovery and early-stage drug development. Our mission is to make a significant contribution to improving the quality of life and health of people around the world. Our vision is to become one of Japan's global biotechnology and drug discovery champions.

During the three-month period ended March 31, 2020, the Group continued to advance its drug discovery and early-stage development pipeline, as well as enhance its proprietary StaR® ("stabilized receptor") technology and Structure-based Drug Design ("SBDD") platform.

Our business model is focused across three core areas to create value; (i) supporting our existing partnerships with major global pharmaceutical companies, (ii) generating new and progressing existing collaborations in R&D with innovative technology companies and venture funds, and (iii) signing new high-value partnerships based on successful in-house drug discovery and early-stage development of new candidates.

On 25 March 2020, the Group hosted its 30th Ordinary General Meeting of Shareholders in Tokyo. At the event, the Group's Chairman, President and CEO, Mr. Shinichi Tamura, discussed the strengthened focus on the execution of the next stage of its growth strategy, which aims to leverage world-class Platform, Discovery and Early Development capabilities to advance and extend a portfolio of Partnered Programs. The Group's strategy was outlined as follows:

1. Build a leading science and technology-led drug discovery business
    - The acquisition of Heptares Therapeutics in 2015 with its world-leading scientific and technological capabilities, notably the StaR® GPCR technology and SBDD platform, was and is the cornerstone of this mission.
    - This technology and platform are core to the Group's drug discovery efforts and together have allowed us to establish one of the world's leading approaches to GPCR-target drug design.
    - The Group will continue to leverage the significant untapped opportunity to discover drugs that target GPCRs and other membrane proteins, with a clear focus on high-value programs, including those addressing difficult to drug targets.
2. Generate multiple new drug candidates targeted for high-value collaborations or long-term ventures
    - The Group's science and technology-led approach has enabled us to create over 25 preclinical drug candidates in the last ten years, with seven of these having moved into human clinical trials. This high degree of productivity comes from our extremely efficient approach, which enables the Group to generate preclinical candidates 1-2 years faster than the pharmaceutical industry standard.
    - Many of these preclinical drug candidates have formed the basis of the Group's high-value collaborations, including partnerships with Pfizer, Allergan, AstraZeneca, and more recently, Takeda and Genentech.
    - The Group will continue this drug discovery and early-stage development strategy, with an aim to execute 2-3 new high-value collaborations or long-term ventures every year.

3. Invest the proceeds of high-value collaborations and long-term ventures into the technologies needed to reinforce our leadership in GPCR drug discovery and SBDD
    - Technology does not stand still. Our goal is to become a pharma discovery partner of choice by providing a highly attractive solution to increasing innovation and productivity.
    - The Group invests its collaboration and venture proceeds to continuously refresh and enhance its technology capabilities. So far it has:
        - acquired G7 Therapeutics in Switzerland,
        - collaborated with a German-based company developing innovative DNA-encoded library tools, and the University of Cambridge on Artificial Intelligence-related approaches, and
        - invested significantly in Nobel Prize winning Cryo-EM technology.
    - The Group intends to continue to acquire, or enter partnerships to secure access to, more new technologies, tools and platforms in order to remain at the cutting edge of science and technology which will expand our leadership in innovative drug discovery.

As of March 31, 2020, the Group had more than 15 programs ongoing in discovery, with seven in preclinical development, and nine[3][4] currently in clinical trials.

The Group's response to COVID-19

As a business operating in the global life sciences industry, the Group has an important role to play to ensure the health and safety of all stakeholders and society. The Group's priority remains the health of our employees, community members, and investigators and patients in our clinical trials. The Group has taken several actions in response to the COVID-19 situation, including:

- Implementing policies and practices to ensure a safe working environment for our employees and the communities where we operate to reduce the spread of COVID-19. This includes a mandatory work from home policy for almost all employees globally, while our laboratory-based scientists are working on an optimized rota basis.
- Donating supplies of personal protective equipment to a local hospice in the United Kingdom.
- Initiating a new in-house COVID-19 R&D program to apply our unique SBDD platform and capabilities to the global research efforts to discover drugs targeting the SARS-CoV-2 coronavirus and to treat COVID-19 and infections caused by future variants of SARS-CoV-2. All findings to be made freely available to the global research community.

[3] Includes QVM149 for Asthma, AZD4635 combination for prostate cancer, HTL0018318 for dementia with Lewy bodies (voluntarily suspended and withdrawn), AZD4635 for multiple solid malignancies, HTL0016878 for neurobehavioral symptoms of Alzheimer's disease, HTL0018318 for Alzheimer's disease (voluntarily suspended), an undisclosed new drug candidate nominated by Pfizer, HTL0014242 for neurological disorders, and HTL0030310 for endocrine disorders.

[4] Phase 2 trial of HTL0018318 for DLB in Japan remains under voluntary suspension and has been withdrawn. The Group plans to resubmit a new clinical trial notification for HTL0018318 (or another novel M1 agonist) to the Japanese Pharmaceuticals and Medical Devices Agency (PMDA) in the future, pending the outcome of an ongoing investigation.

Progressing our multiple partnerships with major global pharmaceutical companies

The Group continued to make good progress with its partners and has implemented measures to ensure R&D continuity and productivity under the new conditions imposed as a result of the COVID-19 situation. This is most notable with Takeda and Genentech, where our work on these respective research and development collaborations has been prioritized and continues to move forward productively.

Our other out-licensed programs are being advanced exclusively by our partners, such as with AstraZeneca, Pfizer, and Allergan, whilst progress is ongoing, we do anticipate that some delays could emerge as a result of the global COVID-19 situation.

Advancing our collaborations with innovative technology and venture funds

The Group continued to make significant progress with its technology and venture partners.

On 14 January 2020, the Group announced that significant scientific progress at its spin-off companies Orexia Limited ("Orexia") and Inexia Limited ("Inexia") triggered the next tranche of funding from venture capital firm Medicxi under its €40 million commitment. The Group and Medicxi, which specializes in financing asset-centric companies, created Orexia and Inexia in 2019 to develop novel therapies based on positive modulators of the G protein-coupled receptors (GPCRs) Orexin OX1 and OX2 for neurological diseases, including narcolepsy.

Investing on our in-house discovery and early development to generate new candidates for partnering

The Group continued to make significant investments in its pipeline, as it advanced multiple discovery candidates and early development programs. The Group's two ongoing in-house Phase I clinical trials (HTL0014242 and HTL0030310) are progressing well and are now the subject of multiple ongoing partnering discussions. We do, however, expect that some delays to the completion of these studies could emerge as a result of the global COVID-19 situation.

On 20 March 2020, the Group announced a new high-impact publication highlighting the potential of structure-based approaches to generate novel peptide-based drugs targeting GPCRs. The article entitled 'Advances in Therapeutic Peptides Targeting G Protein-coupled Receptors' (Davenport et al.) has been published by Nature Reviews Drug Discovery, a prestigious and highly influential peer-reviewed journal.

The article focuses on the new discovery strategies that leverage cutting-edge structure-based technologies, including Sosei Heptares' unique StaR® platform and cryo-EM, to generate novel and selective peptides with precisely designed activities and improved drug-like (pharmacokinetic and pharmacodynamic) properties. Such peptides include agonists, antagonists, as well as peptides designed to activate specific downstream signalling pathways (biased ligands), and dual agonists that activate two different GPCRs.

The generation of novel, precisely designed peptide leads against disease-relevant GPCRs provides multiple partnering opportunities for the Group.

Operational highlights after the period under review ended March 31, 2020

On April 14, 2020, the Group announced that it would apply it Structure-based Drug Design Expertise in a new COVID-19 R&D program. The new R&D program is to identify novel compounds that block the activity of the SARS-CoV-2 MPro protease (Nsp5), which has been designated as an important potential target for drug development. The Mpro protease cleaves a polyprotein encoded by the viral genome into 12 non-structural proteins (Nsp4-Nsp16) some of which play crucial roles in viral replication. The Group has created a multidisciplinary team spanning structural and biophysical analysis, computational chemistry and medicinal chemistry. The team brings a wealth of experience in SBDD and cutting-edge technologies that will be applied to the precision design of new inhibitor compounds against not only the SARS-CoV-2 coronavirus but also against predicted future variants. All findings from the program will be made freely available to the global research community investigating solutions to the COVID-19 crisis. Furthermore, the Group is looking to establish collaborations with industry partners to support this program and also to contribute its unique expertise to other areas under investigation as part of the global effort by the pharmaceutical and biotechnology industries to find new treatments for COVID-19. There is no material impact to the Group's financial statements from investing in this important not-for-profit research initiative. Our aim for this project is to make a long-term contribution to the well-being of the patients around the world through industry wide collaboration.

On 1 May 2020, the Group noted that Novartis announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) recommended the approval in the European Union of Enerzair® Breezhaler® (QVM149; indacaterol acetate, glycopyrronium bromide and mometasone furoate [IND/GLY/MF]) as a maintenance treatment of uncontrolled asthma in adult patients. The European Commission (EC) reviews the CHMP recommendation and usually delivers its final decision in approximately two months. If the EC follows this recommendation and approves Enerzair® Breezhaler®, it will become the first long acting beta2 agonist (LABA)/long-acting muscarinic antagonist (LAMA)/ inhaled corticosteroid (ICS) fixed-dose combination for uncontrolled asthma patients. Additional regulatory filings for QVM149 are currently underway in multiple countries, including Switzerland, Japan and Canada. While the CHMP positive opinion does not trigger a milestone payment, the Group will be eligible to receive a $5m milestone on final approval by the EC and thereafter a low-single digit royalty on net sales. The event reported therefore has no immediate impact on the consolidated financial results for the accounting period ending December 2020.

On 7 May 2020, the Group announced that it had made further significant progress with its orexin program, which is being developed in conjunction with its spin-off companies Orexia and Inexia. The Group solved the structure of the agonist bound orexin OX2 receptor and identified a small molecule binding site using its unique StaR® technology and structure-based approach. The new improved insights into the receptor's structure will help optimize the discovery and development of novel molecules targeting neurological diseases. Orexia and Inexia are funded by Medicxi under a €40 million commitment.

As of March 31, 2020, the Group had a total of 163 employees (same as the end of the previous fiscal year FY19).

As a result of the above activities, the Group reported the following financial results for the three month period ended March 31, 2020. Revenue of JPY 1,162 million (an decrease of JPY 1,974 million vs. the prior corresponding period), an operating loss of JPY 445 million (an operating profit of JPY 1,061 million in the prior corresponding period), a net loss before income taxes of JPY 500 million (a net profit before income taxes of JPY 929 million in the prior corresponding period), a net loss of JPY 746 million (a net profit of JPY 1,018 million in the prior corresponding period).

	3 months ended March 31, 2020 ¥m	3 months ended March 31, 2019 ¥m	Change
Revenue	**1,162**	3,136	(1,974)
Cost of sales	**(175)**	(213)	38
Research and development expenses	**(668)**	(1,024)	356
Selling, general and administrative expenses	**(783)**	(841)	58
Other net income	**19**	3	16
Operating (loss) profit	**(445)**	1,061	(1,506)
Net finance costs	**7**	(64)	71
Share of loss of associates	**(62)**	(68)	6
Net (loss) profit before income tax	**(500)**	929	(1,429)
Net (loss) profit	**(746)**	1,018	(1,764)

The Group operates as a single business segment and, therefore, segmental information has been omitted. Further explanation of the Group's financial performance is detailed below.

Revenue

	3 months ended March 31, 2020 ¥m	3 months ended March 31, 2019 ¥m	Change
Royalty income	**619**	576	43
Milestone fees and lump-sum payments	**233**	2,257	(2,024)
Product supply revenue	**-**	65	(65)
Other	**310**	238	72
	1,162	3,136	(1,974)

Revenue in the three-month period under review totaled JPY 1,162 million (a decrease of JPY 1,974 million vs. the prior corresponding period).

Revenue related to royalties in the three-month period under review totaled JPY 619 million (an increase of JPY 43 million vs. the prior corresponding period). The majority of the Group's royalty revenue relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis[5].

Ultibro® Breezhaler® remains the number one LABA/LAMA across Europe. In its Q1 2020 results presentation, Novartis updated the program status of QVM149, a new inhaled LABA/LAMA/ICS therapy for the treatment of Asthma, containing the Group's out-licensed compound glycopyrronium bromide. Novartis disclosed a regulatory decision remains to be expected to be made in 2020 for QVM 149. QVM149 was investigated in Phase 3/3b Studies, IRIDIUM and ARGON, which completed in 2019. QVM149 was submitted for registration in Europe in May 2019 and in Japan in Q3 2019. The Group is eligible to receive further royalties on net sales of this product once commercialized.

Revenue related to upfronts and milestones in the three-month period under review totaled JPY 233 million (a decrease of JPY 2,024 million vs. the prior corresponding period). Milestone revenues can vary considerably quarter on quarter and depend on the achievement of defined milestone events within a quarter. The decrease in revenue was due to the absence of both upfront payments related to new partnerships and major milestone payments from existing discovery and development partnerships in the three month period under review, whereas the Group received a US$15m milestone payment from AstraZeneca in the prior corresponding period. The Group classifies a "major" milestone payment as any single payment greater than or equal to approximately USD 5 million.

[5] Glycopyrronium bromide and certain use and formulation intellectual property were exclusively licensed to Novartis in April 2005 by Sosei and Vectura. In the US, these products are available at different doses or regimens under the names Utibron™ Neohaler® and Seebri™ Neohaler® and Sunovion Pharmaceuticals Inc. has assumed as of December 21, 2016 US commercialization rights for them. Seebri™ Neohaler® was launched in October 2017 by Sunovion Pharmaceuticals Inc.

Operating expenses

	3 months ended March 31, 2020 ¥m	3 months ended March 31, 2019 ¥m	Change
Cost of sales	**175**	213	(38)
Research and development	**688**	1,024	(356)
Cash expenses	**557**	936	(378)
Non-cash expenses	**111**	88	23
General and administrative expenses	**783**	841	(58)
Cash expenses	**437**	557	(120)
Non-cash expenses	**346**	284	62

Cost of sales

Cost of sales in the three-month period under review totaled JPY 175 million yen (a decrease of JPY 38 million vs. the prior corresponding period). This is primarily related to the decrease in the costs directly associated with ORAVI® product supply. Otherwise, cost of sales comprises the fully loaded cost of those employees providing research and development services to specific customers under contracts (including other costs directly associated with these activities such as lab consumables).

Cash research and development expenses

Cash research and development ("R&D") expenses in the three-month period under review totaled JPY 557 million (a decrease of JPY 379 million vs. the prior corresponding period). The decrease in R&D spend primarily related to a reduction in project activity due to COVID-19, as well as the successful resolution of disputed costs charged by one supplier. In the period under review, 95% of R&D spend related to our UK operations.

Cash general and administrative expenses

Cash general and administrative ("G&A") expenses in the three-month period under review totaled JPY 437 million (a decrease of JPY 120 million vs. the prior corresponding period). The decrease in G&A spend primarily related to a reduction in our UK National Insurance liability linked to share based payments as a result of the reduction in our share price over the quarter.

Non-cash expenses

Non-cash expenses primarily consist of depreciation on property, plant and equipment, amortization of intangible assets and stock-based compensation expense. Non-cash expenses in the three-month period under review were JPY 457 million (an increase of JPY 85 million vs. the prior corresponding period). In total, depreciation amounted to JPY 126 million (an increase of JPY 23 million vs. the prior corresponding period). Amortization for the three-month period under review totaled JPY 214 million (a decrease of JPY 24 million vs. the prior corresponding period). Stock-based compensation expense for the period was JPY 117 million (an increase of JPY 86 million vs. the prior corresponding period).

Operating income

Operating loss in the three-month period under review totaled JPY 445 million (vs. an operating profit of JPY 1,061 million in the prior corresponding period). The main reason for the operating loss was due to the decrease in revenue (for the reasons stated above).

Net finance income
Net finance profit in the three-month period under review totaled JPY 7 million (vs. an increase of JPY 71 million vs. the prior corresponding period). The improvement was primarily due to foreign exchange related gains driven by the strength of the JPY vs. GBP.

Net loss
The net loss in the three-month period under review totaled JPY 746 million (a net profit of JPY 1,018 million in the prior corresponding period). The main reason for the net loss was due to the decrease in revenue (for the reasons stated above).

(2) Analysis of financial position

1) Assets, liabilities and equity

Assets
Total assets at March 31, 2020 were JPY 52,864 million (a decrease of JPY 3,816 million vs. the end of the previous fiscal year FY19). The main reason for the decrease was the effect of the weak GBP on the translation of GBP-denominated assets into JPY.

Liabilities
Total liabilities at March 31, 2020 were JPY 10,639 million (a decrease of JPY 963 million vs. the end of the previous fiscal year FY19). The main reason was a decrease in trade payables.

Equity
Total equity at March 31, 2020 was JPY 42,225 million (a decrease of JPY 2,853 million vs. the end of the previous fiscal year FY19). This was primarily due to the net loss of JPY 746 million and exchange differences of translation of JPY 2,303 million.

The ratios of Cash and cash equivalents, Interest-bearing debt and Equity attributable to owners of the parent company to total assets were 30.9%, 3.2% and 79.9%, respectively.

2) Cash flows

Cash and cash equivalents at March 31, 2020 increased by JPY 960 million from the beginning of the year and amounted to JPY 16,335 million.

Cash flows from operating activities
Net cash provided by operating activities for the period under review totaled JPY 1,469 million. This was primarily due to income tax refunds of JPY 1,114 million.

Cash flows from investing activities
Net cash provided by investing activities for the period under review totaled JPY 198 million. This was primarily due to sales on investment securities by RMF1 of JPY 238 million.

Cash flows from financing activities
Net cash used in financing activities for the period under review totaled JPY 211 million. This was primarily due to contingent consideration payments of JPY 159 million.

(3) Earnings forecast

The Group's response to COVID-19

As a business operating in the global life sciences industry, the Group has an important role to play to ensure the health and safety of all stakeholders and society. The Group's priority remains the health of our employees, community members, and investigators and patients in our clinical trials. The Group has taken several actions in response to the COVID-19 situation, including:

- Implementing policies and practices to ensure a safe working environment for our employees and the communities where we operate to reduce the spread of COVID-19. This includes a mandatory work from home policy for almost all employees globally, while our laboratory-based scientists are working on an optimized rota basis.
- Donating supplies of personal protective equipment to a local hospice in the United Kingdom.
- Initiating a new in-house COVID-19 R&D program to apply our unique SBDD platform and capabilities to the global research efforts to discover drugs targeting the SARS-CoV-2 coronavirus and to treat COVID-19 and infections caused by future variants of SARS-CoV-2. All findings to be made freely available to the global research community.

Potential business impacts from COVID-19

The COVID-19 situation has created a challenging environment for people and companies across the world. The Group recognizes that the COVID-19 outbreak may have an impact on our business. While the COVID-19 situation in the United Kingdom and Japan continues to evolve, the Group is monitoring closely for potential impacts:

- Overall business: apart from our new in-house COVID-19 R&D program, we are currently prioritizing revenue-generating work for our major collaboration partners. Work on in-house R&D programs, where we do not receive revenues from external partners, has been reduced in the short term. In-house R&D programs can be rapidly scaled up again in the future.
- Supply chain: our core R&D facility in the United Kingdom has continued to operate throughout the COVID-19 outbreak. Our teams are working closely with providers across the supply chain to ensure continuity. To date we have not experienced any major interruptions to the supply of critical consumables for laboratory work and continue to closely monitor the situation.
- Drug discovery projects: to ensure a safe working environment for both our own employees and the employees of our external CRO partners, laboratory-based work is being conducted on a rota basis with some reduced capacity to enable social distancing. The Group has an extensive CRO network that is geographically diversified and has secured increased capacity with providers in China and Eastern Europe. Despite this, we expect to see some small delays to project timelines and continue to closely monitor the situation.
- Early development/clinical trials: patient safety is of utmost importance, and we are working closely with our providers and partners to advance our current clinical trials safely. We expect that there will be some impact to timelines for both our in-house and partnered clinical programs, and that studies expected to complete in 2020 are now more likely to complete in 2021.

- Business development and new partnerships: scheduled and future partnership discussion meetings have not been impacted and are being conducted virtually.

Financial forecast

Despite these challenging times, the Group remains committed to delivering on its mission and vision, and to serving collaboration partners and patients in our clinical trials. The Group's smaller size enabled it to quickly enact flexible business continuity plans, and therefore we have continued to make steady progress across the business and remain well positioned to capitalize on a number of strategic opportunities. We are taking steps to increase partnered activity, whilst simultaneously investing in technologies, tools and capabilities to advance an exciting pipeline of next-generation candidates that will form the basis of high value partnerships in the future.

The Group is continuing to drive a sustainable balance of resources and capital. Whilst we aim to pursue profitability, we recognize that the uncertainty caused by the COVID-19 outbreak is likely to impact on this goal. As of March 31, 2020 our financial forecasts remain unchanged from December 31, 2019:

- Forecast cash R&D expenses in the range of JPY 4,200 to JPY 4,700 million[6].
- Forecast cash G&A expenses in the range of JPY 1,800 to JPY 2,300 million[7].
- We expect to receive upfront payments related to new partnerships.
- We expect to receive milestone payments from existing drug discovery and development partnerships.
- We will continue to invest in technologies, tools and capabilities to advance next-generation candidates; while strongly managing our cost base.

The Group has a cash runway into 2022 to fund its drug discovery and early-stage development activities.

[6] The assumed FX rate of USD:JPY 110
[7] The assumed FX rate of USD:JPY 110

2. Interim condensed consolidated financial statements and primary notes (IFRS)

1) Interim condensed consolidated statement of financial position

	March 31, 2020 (Unaudited) ¥m	December 31, 2019 (Audited) ¥m
Assets		
Non-current assets		
Property, plant and equipment	**3,752**	4,120
Goodwill	**13,766**	14,365
Intangible assets	**11,871**	12,999
Investments accounted for using the equity method	**3,232**	3,539
Other financial assets	**1,809**	2,053
Other non-current assets	**36**	41
Total non-current assets	**34,466**	37,117
Current assets		
Trade receivables	**1,052**	1,924
Income tax receivable	**577**	1,765
Other current assets	**434**	499
Cash and cash equivalents	**16,335**	15,375
Total current assets	**18,398**	19,563
Total assets	**52,864**	56,680
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	**2,069**	2,008
Contingent consideration in business combinations	**3,111**	3,203
Interest-bearing debt	**1,553**	1,794
Other financial liabilities	**1,457**	1,489
Other non-current liabilities	**712**	895
Total non-current liabilities	**8,902**	9,299
Current liabilities		
Trade and other payables	**809**	1,211
Income taxes payable	**162**	162
Interest-bearing debt	**152**	175
Other current liabilities	**614**	755
Total current liabilities	**1,737**	2,303
Total liabilities	**10,639**	11,602
Equity		
Capital stock	**37,518**	37,479
Capital surplus	**26,675**	26,548
Treasury stock	**(0)**	(0)
Retained earnings	**(13,010)**	(12,264)
Other components of equity	**(8,961)**	(6,688)
Equity attributable to owners of the parent	**42,222**	45,075
Non-controlling interests	**3**	3
Total equity	**42,225**	45,078
Total liabilities and equity	**52,864**	56,680

2) Interim condensed consolidated statement of comprehensive income

	Three month period ended March 31, 2020 (Unaudited) ¥m	Three month period ended March 31, 2019 (Unaudited) ¥m
Revenue	**1,162**	3,136
Cost of sales	**(175)**	(213)
Gross profit	**987**	2,923
Research and development expenses	**(668)**	(1,024)
Selling, general and administrative expenses	**(783)**	(841)
Other income	**19**	11
Other expenses	**(0)**	(8)
Operating (loss) profit	**(445)**	1,061
Finance income	**214**	310
Finance costs	**(207)**	(374)
Share of loss of associates accounted for using the equity method	**(62)**	(68)
(Loss) profit before income taxes	**(500)**	929
Income tax (expense) benefit	**(246)**	89
Net (loss) profit	**(746)**	1,018
Other comprehensive income:		
Items that may not be reclassified subsequently to profit or loss:		
Financial assets measured at fair value through other comprehensive income (loss)	**30**	(30)
Items that may be reclassified subsequently to profit or loss:		
Exchange conversion difference of overseas sales activities	**(2,303)**	956
Total other comprehensive (loss) income	**(2,273)**	926
Total comprehensive (loss) income	**(3,019)**	1,944
Net profit (loss) attributable to:		
Owners of the parent	**(746)**	1,018
Non-controlling interests	**(0)**	(0)
Total net (loss) profit attributable	**(746)**	1,018
Total comprehensive income attributable to:		
Owners of the parent	**(3,019)**	1,944
Non-controlling interests	**(0)**	(0)
Total comprehensive (loss) income attributable	**(3,019)**	1,944
Earnings per share (yen)		
Basic (loss) earnings per share	**(9.69)**	13.34
Diluted (loss) earnings per share	**(9.69)**	13.30

3) Interim condensed consolidated statement of changes in equity

	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity: ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity ¥m**
Balance at January 1, 2020	**37,479**	**26,548**	**(0)**	**(12,264)**	**(6,688)**	**45,075**	**3**	**45,078**
Net (loss) profit	-	-	-	(746)	-	**(746)**	(0)	**(746)**
Other comprehensive loss	-	-	-	-	(2,273)	**(2,273)**	-	**(2,273)**
Total comprehensive loss	-	-	-	(746)	(2,273)	**(3,019)**	(0)	**(3,019)**
Issuance of new shares	39	(29)	-	-	-	**10**	-	**10**
Share-based payments	-	156	-	-	-	**156**	-	**156**
Total transactions with owners	39	127	-	-	-	**166**	-	**166**
Balance at March 31, 2020 (Unaudited)	**37,518**	**26,675**	**(0)**	**(13,010)**	**(8,961)**	**42,222**	**3**	**42,225**
Balance at January 1, 2019	36,854	26,042	(0)	(13,696)	(7,623)	41,577	3	41,580
Net profit (loss)	-	-	-	1,018	-	1,018	(0)	1,018
Other comprehensive income	-	-	-	-	926	926	-	926
Total comprehensive income (loss)	-	-	-	1,018	926	1,944	(0)	1,944
Issuance of new shares	64	13	-	-	-	77	-	77
Share-based payments	-	31	-	-	-	31	-	31
Total transactions with owners	64	44	-	-	-	108	-	108
Balance at March 31, 2019 (Unaudited)	36,918	26,086	(0)	(12,678)	(6,697)	43,629	3	43,632

4) Interim condensed consolidated statement of cash flow

	Three month period ended March 31, 2020 (Unaudited) ¥m	Three month period ended March 31, 2019 (Unaudited) ¥m
Cash flows from operating activities		
(Loss) profit before income taxes	**(500)**	929
Adjustments for:		
Receipt of non-cash consideration from customer	**-**	(260)
Depreciation and amortization	**340**	340
Share-based payments	**117**	31
(Gain) on revaluation of investment securities	**(45)**	(229)
Loss on sale of investment securities	**73**	-
(Gain) loss on revaluation of investment in capital	**(32)**	189
Change in fair value of contingent consideration	**115**	(74)
Net foreign exchange loss	**25**	12
Interest income	**(24)**	-
Interest expenses	**15**	69
Share of loss of associates accounted for using the equity method	**62**	68
Decrease (increase) in trade receivables	**766**	76
(Increase) decrease in other accounts receivables	**(34)**	(75)
(Decrease) increase in trade payables	**(379)**	(516)
(Decrease) increase deferred revenues	**(73)**	(516)
Other	**(89)**	(195)
Subtotal	**337**	365
Grants received	**-**	31
Interest and dividends received	**24**	7
Interest paid	**(2)**	(37)
Income taxes refund	**1,114**	-
Income taxes paid	**(4)**	(7)
Net cash provided by operating activities	**1,469**	359
Cash flows from investing activities		
Purchase of property, plant and equipment	**(34)**	(131)
Purchase of intangible assets	**(6)**	-
Payments for purchase of investment securities	**-**	(100)
Proceeds from sale on investment securities	**238**	-
Other	**-**	20
Net cash provided by (used in) investing activities	**198**	(211)
Cash flows from financing activities		
Repayments of lease obligations	**(62)**	(17)
Repayments of long-term borrowings	**-**	(750)
Payment for settlement of contingent consideration	**(159)**	(252)
Proceeds from contributions from limited partners	**-**	495
Proceeds from issuance of common stock	**10**	77
Net cash (used in) financing activities	**(211)**	(447)
Effects of exchange rate changes on cash and cash equivalents	**(496)**	44
Net increase (decrease) in cash and cash equivalents	**960**	(255)
Cash and cash equivalents at the beginning of the period	**15,375**	18,760
Cash and cash equivalents at the end of the period	**16,335**	18,505

5) Notes of interim condensed consolidated financial statements

5.1 Notes related to going concern assumptions
Not applicable.

5.2 Change in accounting policy
Not applicable.

5.3 Changes in accounting estimates
Not applicable.

5.4 Operating segments
The Group operates a single business segment being the pharmaceutical business.

5.5 Significant subsequent events
In FY2019, The Company introduced the Restricted Stock Unit ("RSU") Plan with the intention to increase the motivation and drive of the Directors, the Executive Officers and the Eligible Employees of the Company and its wholly owned subsidiaries ("Executives and Employees") to energetically realize the Company's vision and strategy. The Plan will also promote the sharing of benefits and risks of share price fluctuations with shareholders, and further encourage the Executives and Employees of the Company and its wholly owned subsidiaries to actively contribute to the increase of the share price and enhance the Company's corporate value.

On April 16, 2020 the Board of Directors adopted a resolution to issue new shares under the Restricted Stock Unit Plan as described below.

Details of Issuance

	7th RSU	8th RSU	9th RSU
1 Payment date	April 9, 2021	May 19, 2022	May 18, 2023
2 Type and number of shares to be issued	Common shares 39,780 shares	Common shares 224,881 shares (planned)	Common shares 224,881 shares (planned)
3 Payment amount (Note)	1,426 Yen per share	Representative Executive Officer will decide the payment amount hereafter	Representative Executive Officer will decide the payment amount hereafter
4 Total issue value	56,726,280 yen	Representative Executive Officer will decide the total issue value hereafter	Representative Executive Officer will decide the total issue value hereafter
5 Planned Allottees	39,780 shares will be allotted among 5 Directors of the Company	7 Directors and Executive Officers of the Company 61 Directors of subsidiaries of the Company and employees of the Company and its subsidiaries. 224,881 shares to be allotted (planned)	7 Directors and Executive Officers of the Company 61 Directors of subsidiaries of the Company and employees of the Company and its subsidiaries. 224,881 shares to be allotted (planned)

(Note) Delivered in return for provision as contribution in kind of monetary compensation claims against the Company granted to the Executives and Employees of the Company and its wholly owned subsidiaries as the Planned Allottees.