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August 14, 2020

## Summary of Consolidated Financial Results for the First Six Months of the Fiscal Year Ending December 31, 2020 (JGAAP)

**Listed company's name:** RaQualia Pharma Inc.  
**Listed on:** Tokyo Stock Exchange (TSE)  
**Stock code:** 4579  
**URL:** <https://www.raqualia.com/>  
**Representative:** Naoki Tani, President and CEO  
**Contact:** Kiichiro Kawada, Director (TEL) +81-52-446-6100  
**Scheduled date of filing of quarterly securities report:** August 14, 2020  
**Scheduled date of dividend payment:** —  
**Supplementary documents for quarterly results:** Yes  
**Quarterly results briefing:** Yes (for institutional investors and analysts)

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

### 1. Consolidated financial results for the first six months of the fiscal year ending December 31, 2020 (January 1, 2020 to June 30, 2020)

#### (1) Consolidated operating results (cumulative)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First six months ended June 30, 2020	372	(31.7)	(403)	—	(402)	—	(459)	—
June 30, 2019	545	22.4	(302)	—	(307)	—	(310)	—

Note: Comprehensive income Six months ended June 30, 2020: (469) million yen [–%]  
Six months ended June 30, 2019: (280) million yen [–%]

	Earnings per share (Basic)	Earnings per share (Diluted)
First six months ended June 30, 2020	yen (21.93)	yen —
June 30, 2019	(15.19)	—

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of June 30, 2020	million yen 4,364	million yen 4,151	% 94.8
December 31, 2019	4,836	4,620	95.3

Reference: Equity As of June 30, 2020: 4,228 million yen As of December 31, 2019: 4,608 million yen

### 2. Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended December 31, 2019	yen —	yen 0.00	yen —	yen 0.00	yen 0.00
Fiscal year ending December 31, 2020	—	0.00			
Fiscal year ending December 31, 2020 (forecast)			—	0.00	0.00

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

**3. Forecasts of consolidated financial results for the fiscal year ending December 31, 2020 (January 1, 2020 to December 31, 2020)**

(Percentage figures represent year-on-year changes)

Fiscal year ending December 31, 2020	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share (Basic)
	million yen	%	million yen	%	million yen	%	million yen	%	yen
	1,579	(7.2)	(260)	—	(256)	—	(333)	—	(15.93)

Note: Revisions to the forecasts of results most recently announced: Yes

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

**\* Notes**

- (1) Changes in significant subsidiaries during the first six months ended June 30, 2020 (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of special accounting for preparing quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatements of prior financial statements
  - a. Changes in accounting policies due to the revisions to accounting standards and other regulations: None
  - b. Changes in accounting policies due to other reasons: None
  - c. Changes in accounting estimates: None
  - d. Restatements of prior financial statements: None
- (4) Number of issued shares (common shares)

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

As of June 30, 2020	20,950,642 shares
As of December 31, 2019	20,950,142 shares

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

As of June 30, 2020	50 shares
As of December 31, 2019	50 shares

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

For the first six months ended June 30, 2020	20,950,454 shares
For the first six months ended June 30, 2019	20,416,921 shares

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

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

(Caution concerning forward-looking statements)

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

Please refer to “1. Qualitative information regarding settlement of accounts for the first six months, (3) Qualitative information regarding consolidated earnings forecasts” on page 3 of the attached material for the suppositions that form the assumptions for financial forecasts and cautions concerning the use of financial forecasts.

(Method of accessing supplementary documents for financial results and details of financial results briefing)

The Company plans to hold a financial results briefing for institutional investors and securities analysts on Wednesday, August 19, 2020.

The Company plans to post the documents used at the briefing on its website promptly after the briefing is held.

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

### (1) Qualitative information regarding consolidated operating results

#### 1) Financial results

During the first six months ended June 30, 2020, the economy entered a recession due to the impact of the spread of the novel coronavirus disease (“COVID-19”), the subsequent declaration of a “state of emergency” by various countries’ governments, and other factors. Under such conditions, the Group achieved the following financial results during the first six months.

With regard to pet drug products, sales of GALLIPRANT® (generic name: grapiprant; “GALLIPRANT®”)—a drug for osteoarthritis in dogs was temporarily affected in the first quarter ended March 31, 2020 as a result of the impact of COVID-19 and a reduction in channel inventory carried out in the U.S. by licensee Elanco Animal Health Inc. (U.S., “Elanco (U.S.)”). Sales in the second quarter ended June 30, 2020 struggled despite a recovery trend. On the other hand, in April 2020, GALLIPRANT® received approval from the Ministry of Agriculture, Forestry and Fisheries as an animal drug product in Japan. Furthermore, sales of ENTYCE® (generic name: capromorelin)—a treatment for anorexia in dogs recorded steady growth.

With regard to human drug products, royalty income from K-CAB® (generic name: tegoprazan; “tegoprazan”)—a drug for gastro-esophageal reflux disease that is on the market in South Korea, struggled due to the impact of inventory adjustments, etc. despite continued favorable sales from external prescriptions.

With regard to the global development of tegoprazan, licensee HK inno.N Corporation (South Korea, “HK inno.N (South Korea)”) submitted an Investigational New Drug (IND) application to the U.S. Food and Drug Administration (“FDA”) and obtained approval in June 2020 for conducting trials. In China, the Phase III clinical trials being advanced by Shandong Luoxin Pharmaceutical Group Co.,Ltd. (China) are progressing steadily. Furthermore, in Japan, negotiations for development between the Company and HK inno.N (South Korea) are progressing.

Accordingly, financial results for the first six months, the reporting period, were as follows. Business revenue for the period was 372 million yen (down 31.7% year on year), operating loss totaled 403 million yen (compared with operating loss of 302 million yen a year earlier), ordinary loss totaled 402 million yen (compared with ordinary loss of 307 million yen a year earlier), and loss attributable to owners of parent was 459 million yen (compared with loss attributable to owners of parent of 310 million yen a year earlier). Total business expenses were 776 million yen (down 8.5% year on year). This total mainly consists of cost of business revenue (57 million yen, a 55.6% decrease from the same period of the previous fiscal year), research and development expenses (450 million yen, a 4.8% increase from the same period of the previous fiscal year) and other selling, general and administrative expenses (267 million yen, a 7.0% decrease from the same period of the previous fiscal year).

#### 2) Research and development activities

Research and development expenses of the Group during the first six months were 450 million yen. The main components of these activities were as follows:

##### (A) RaQualia’s research and development and collaborative research

For the first six months, there were no material changes to the RaQualia’s research and development and collaborative research.

##### (B) Status of development at licensee corporation

###### **tegoprazan (Registered trademark in South Korea: K-CAB®, development code: RQ-00000004/IN-12420)**

HK inno.N (South Korea) submitted an Investigational New Drug (IND) application to the U.S. Food and Drug Administration (“FDA”) for tegoprazan, which has already been approved and sold as a drug for gastro-esophageal reflux disease, etc. in South Korea, and obtained approval in June 2020 for conducting trials. This company is preparing to conduct clinical trials.

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

## **(2) Qualitative information regarding consolidated financial position**

### **1) Analysis of assets, liabilities and net assets**

#### Assets

Total assets as of June 30, 2020 were 4,364 million yen, a decrease of 472 million yen (down 9.8%) from the end of the previous fiscal year. This is mainly attributable to a decrease in cash and deposits of 384 million yen, a decrease in accounts receivable – trade of 497 million yen and an increase in securities of 336 million yen.

#### Liabilities

Total liabilities as of June 30, 2020 were 213 million yen, a decrease of 2 million yen (down 1.3%) from the end of the previous fiscal year. This is mainly attributable to an increase in accounts payable – other of 6 million yen, a decrease in income taxes payable of 5 million yen, and a decrease in deferred tax liabilities of 4 million yen.

#### Net assets

Total net assets as of June 30, 2020 were 4,151 million yen, a decrease of 469 million yen (down 10.2%) from the end of the previous fiscal year. This is mainly attributable to the recording of loss attributable to owners of parent of 459 million yen.

Consequently, the equity ratio was 94.8% (down 0.5 percentage points from the end of the previous fiscal year.)

### **2) Analysis of cash flows**

The balance of cash and cash equivalents (“net cash”) as of June 30, 2020 amounted to 2,152 million yen (compared with 1,997 million yen a year earlier), a decrease of 47 million yen from the end of the previous fiscal year.

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

#### Cash flows from operating activities

Net cash used in operating activities was 35 million yen (down 90.9% year on year). This is mainly attributable to the recording of loss before income taxes of 395 million yen and depreciation of 53 million yen, a cash inflow from a decrease in trade receivables of 497 million yen, and a cash outflow from an increase in prepaid expenses of 102 million yen.

#### Cash flows from investing activities

Net cash provided by investing activities was 9 million yen (down 95.6% year on year). This is mainly attributable to the proceeds from sales of investment securities of 168 million yen, purchase of investment securities of 106 million yen, and purchase of property, plant and equipment of 49 million yen.

#### Cash flows from financing activities

Net cash used in financing activities was 0 million yen (compared with net cash of 366 million yen provided a year earlier). This is mainly attributable to repayments of lease obligations of 0 million yen.

### **(3) Qualitative information regarding consolidated earnings forecasts**

Revision to the consolidated earnings forecasts for the fiscal year ending December 31, 2020 contained in the “Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 (JGAAP)” announced on February 14, 2020 have been made based on performance trends up until the first six months ended June 30, 2020.

For details, please refer to the “Notice Concerning Revision to Full-Year FY12/20 Consolidated Earnings Forecast” announced today (August 14, 2020).

## 2. Quarterly consolidated financial statements and significant notes thereto

### (1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2019	As of June 30, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	2,174,200	1,790,073
Accounts receivable - trade	747,267	249,595
Securities	26,006	362,780
Supplies	5,500	4,964
Advance payments - trade	5,952	6,531
Prepaid expenses	69,231	171,465
Other	38,988	48,348
Total current assets	3,067,147	2,633,758
Non-current assets		
Property, plant and equipment		
Buildings, net	77,528	73,244
Tools, furniture and fixtures, net	169,179	201,413
Leased assets, net	2,173	1,830
Total property, plant and equipment	248,881	276,488
Intangible assets		
Trademark right	5,129	4,968
Software	26,805	26,693
Other	550	1,680
Total intangible assets	32,485	33,342
Investments and other assets		
Investment securities	1,474,270	1,408,554
Long-term prepaid expenses	2,199	1,105
Other	11,576	10,924
Total investments and other assets	1,488,047	1,420,583
Total non-current assets	1,769,413	1,730,414
Total assets	4,836,561	4,364,173

(Thousands of yen)

	As of December 31, 2019	As of June 30, 2020
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	34,297	33,263
Lease obligations	741	741
Accounts payable - other	67,183	73,886
Accrued expenses	50,423	50,170
Income taxes payable	20,235	14,564
Advances received	6,875	6,875
Deposits received	3,318	5,691
Total current liabilities	183,074	185,193
Non-current liabilities		
Lease obligations	1,667	1,297
Asset retirement obligations	11,934	11,983
Deferred tax liabilities	19,236	14,596
Total non-current liabilities	32,839	27,877
Total liabilities	215,914	213,070
<b>Net assets</b>		
Shareholders' equity		
Share capital	2,254,943	2,255,096
Capital surplus	2,444,726	2,444,879
Retained earnings	(99,172)	(558,633)
Treasury shares	(21)	(21)
Total shareholders' equity	4,600,476	4,141,320
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,906	(2,364)
Total accumulated other comprehensive income	7,906	(2,364)
Share acquisition rights	12,265	12,147
Total net assets	4,620,647	4,151,103
Total liabilities and net assets	4,836,561	4,364,173

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

(Thousands of yen)

	First six months ended June 30, 2019	First six months ended June 30, 2020
Business revenue	545,637	372,737
Business expenses		
Cost of business revenue	130,536	57,914
Research and development expenses	430,110	450,656
Other selling, general and administrative expenses	287,684	267,662
Total business expenses	848,331	776,233
Operating loss	(302,693)	(403,495)
Non-operating income		
Interest income	4,311	3,160
Interest on securities	18,033	16,142
Subsidy income	–	1,500
Gain on valuation of compound financial instruments	4,600	3,800
Other	645	502
Total non-operating income	27,590	25,105
Non-operating expenses		
Foreign exchange losses	23,623	24,183
Share issuance cost	8,926	78
Other	–	0
Total non-operating expenses	32,549	24,261
Ordinary loss	(307,651)	(402,652)
Extraordinary income		
Gain on sales of investment securities	5,727	6,441
Gain on sales of non-current assets	–	750
Total extraordinary income	5,727	7,191
Loss before income taxes	(301,924)	(395,461)
Income taxes - current	8,269	64,114
Income taxes - deferred	(144)	(115)
Total income taxes	8,125	63,999
Loss	(310,050)	(459,460)
Profit attributable to non-controlling interests	–	–
Loss attributable to owners of parent	(310,050)	(459,460)

**Consolidated statement of comprehensive income (cumulative)**

(Thousands of yen)

	First six months ended June 30, 2019	First six months ended June 30, 2020
Loss	(310,050)	(459,460)
Other comprehensive income		
Valuation difference on available-for-sale securities	29,416	(10,270)
Total other comprehensive income	29,416	(10,270)
Comprehensive income	(280,633)	(469,731)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(280,633)	(469,731)
Comprehensive income attributable to non-controlling interests	–	–



**(3) Consolidated statement of cash flows**

(Thousands of yen)

	First six months ended June 30, 2019	First six months ended June 30, 2020
<b>Cash flows from operating activities</b>		
Loss before income taxes	(301,924)	(395,461)
Depreciation	68,585	53,781
Interest income	(4,311)	(3,160)
Interest income on securities	(18,033)	(16,142)
Foreign exchange losses (gains)	27,324	20,617
Subsidy income	-	(1,500)
Loss (gain) on valuation of compound financial instruments	(4,600)	(3,800)
Share issuance cost	8,926	78
Loss (gain) on sales of investment securities	(5,727)	(6,441)
Loss (gain) on sales of non-current assets	-	(750)
Decrease (increase) in trade receivables	(69,190)	497,672
Decrease (increase) in inventories	717	535
Increase (decrease) in trade payables	169	(1,034)
Decrease (increase) in advance payments - trade	4,122	(578)
Decrease (increase) in prepaid expenses	(102,521)	(102,233)
Increase (decrease) in accounts payable - other	(28,049)	(21,576)
Decrease (increase) in consumption taxes refund receivable	4,551	(15,111)
Other, net	18,734	6,233
Subtotal	(401,225)	11,128
Interest and dividends received	22,778	21,041
Subsidies received	-	1,500
Income taxes paid	(12,896)	(69,207)
Net cash provided by (used in) operating activities	(391,343)	(35,537)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(58,687)	(49,799)
Proceeds from sales of property, plant and equipment	-	750
Purchase of intangible assets	(21,408)	(2,828)
Purchase of investment securities	-	(106,933)
Proceeds from sales of investment securities	301,439	168,309
Other, net	(433)	185
Net cash provided by (used in) investing activities	220,909	9,683
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares resulting from exercise of share acquisition rights	362,042	110
Proceeds from issuance of share acquisition rights	4,412	-
Repayments of lease obligations	(370)	(370)
Net cash provided by (used in) financing activities	366,083	(260)
Effect of exchange rate change on cash and cash equivalents	(27,291)	(21,237)
Net increase (decrease) in cash and cash equivalents	168,358	(47,353)
Cash and cash equivalents at beginning of period	1,829,540	2,200,206
Cash and cash equivalents at end of period	1,997,899	2,152,853

**(4) Notes to quarterly consolidated financial statements**

**Notes on premise of going concern**

No items to report.

**Notes on significant changes in the amount of shareholders' equity**

No items to report.

**Additional information**

(Accounting estimates amid the spread of COVID-19)

The Group has determined the accounting estimates for impairment accounting of non-current assets, etc. based on information available when preparing the consolidated financial statements. The effects of the spread of COVID-19 on the Group are limited at the present time and the Group has determined that there will not be a significant impact on the estimates for the fiscal year under review.

**Segment information, etc.**

[Segment information]

I. For the first six months ended June 30, 2019 (January 1, 2019 to June 30, 2019)

This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

II. For the first six months ended June 30, 2020 (January 1, 2020 to June 30, 2020)

This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

**Significant subsequent event**

No items to report.