May 11, 2018

Summary of Consolidated Financial Results for the First Three Months of the Fiscal Year Ending December 31, 2018 (JGAAP)

Listed company's name: RaQualia Pharma Inc.
Listed on: Tokyo Stock Exchange (TSE)
Stock code: 4579
URL: http://www.raqualia.com/
Representative: Naoki Tani, President and CEO
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Scheduled date of filing of quarterly securities report: May 11, 2018
Scheduled date of dividend payment: —
Supplementary documents for quarterly results: None
Quarterly results briefing: None

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

1. Consolidated financial results for the first three months of the fiscal year ending December 31, 2018 (January 1, 2018 to March 31, 2018)

(1) Consolidated operating results (cumulative)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
First three months ended	million yen	%	million yen	%	million yen	%	million yen	%
March 31, 2018	396	(5.1)	(240)	—	(285)	—	(311)	—
March 31, 2017	417	—	(59)	—	(74)	—	(65)	—

Note: Comprehensive income Three months ended March 31, 2018: (367) million yen [–%]
Three months ended March 31, 2017: (113) million yen [–%]

	Earnings per share (Basic)	Earnings per share (Diluted)
First three months ended	yen	yen
March 31, 2018	(15.33)	—
March 31, 2017	(3.44)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	million yen	million yen	%	yen
March 31, 2018	4,786	4,584	95.5	224.51
December 31, 2017	5,064	4,887	96.2	240.00

Reference: Equity As of March 31, 2018: 4,569 million yen As of December 31, 2017: 4,870 million yen

2. Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended December 31, 2017	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2018	—				
Fiscal year ending December 31, 2018 (forecast)		0.00	—	0.00	0.00

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

3. Forecasts of consolidated financial results for the fiscal year ending December 31, 2018 (January 1, 2018 to December 31, 2018)

(Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share (Basic)
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal year ending December 31, 2018	1,388	(2.2)	(698)	—	(680)	—	(686)	—	(33.84)

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

* As the Company manages financial results annually, forecasts of results for the first six months ending June 30, 2018 are omitted.

*** Notes**

(1) Changes in significant subsidiaries during the first three months ended March 31, 2018 (changes in specified subsidiaries resulting in the change in scope of consolidation): None

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

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

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

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

c. Changes in accounting estimates: None

d. Restatements of prior financial statements: None

(4) Number of issued shares (common shares)

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

As of March 31, 2018	20,354,996 shares
As of December 31, 2017	20,295,236 shares

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

As of March 31, 2018	50 shares
As of December 31, 2017	50 shares

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

For the first three months ended March 31, 2018	20,330,222 shares
For the first three months ended March 31, 2017	19,070,725 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.

Contents of attachment

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

(1) Qualitative information regarding consolidated operating results

1) Financial results

During the first three months ended March 31, 2018, the Japanese economy continued to gradually expand thanks to solid export growth, strong consumer spending, labor-saving-oriented corporate capital investment, etc. However, uncertainty about future business sentiment began to rise due to yen appreciation driven mainly by risk attitudes associated with U.S. trade policy and the current North Korean situation.

In the pharmaceutical sector, domestic pharmaceutical companies actively sought to buy or sell mainly long-listed drug products or businesses, pursuing business restructuring, with a focus on products whose patents had expired. The movements toward becoming specialty pharmaceutical companies specializing in the fields of specific disease and establishing carve-out ventures have a non-negligible effect on the licensing-out activities of drug discovery venture companies such as the Group.

Against this backdrop, the Group pushed ahead with research and development and sales activities, aiming to continuously generate compounds developed as pharmaceuticals, to expand its research and development portfolio, and to license out developed compounds.

During the period under review, the Company concluded an agreement with ZTE Coming Biotech Co., Ltd. (headquartered in China; "ZTE Biotech (China)") in January 2018 relating to the establishment of a joint venture company in China. The two companies will establish a joint venture company engaging in clinical development, aiming to bring new drugs to market. The Group will license intellectual property rights associated with 5-HT_4 partial agonist (RQ-00000010) and 5-HT_{2B} antagonist (RQ-00310941) and provide relevant knowhow and technical expertise, while ZTE Biotech (China) will perform procedures for establishing the joint venture company and procure funds for clinical development.

Regarding licensing activities, the Company achieved a milestone in ongoing collaborative research with Asahi Kasei Pharma Corporation ("Asahi Kasei Pharma") in March 2018, and concluded a new license agreement with them.

In addition, regarding our licensees' activities, Elanco Animal Health (U.S.) ("Elanco (U.S.)," an animal pharmaceutical division of Eli Lilly and Company) and Aratana Therapeutics Inc. (U.S.) ("Aratana (U.S.)," a licensee of the Group) obtained the European Commission's approval in January 2018 for the production and distribution of EP4 antagonist (Galliprant®/grapiprant/RQ-00000007/AT-001; "Galliprant®") in Europe as a pain management compound for dog osteoarthrosis.

To pursue industry-academia collaboration, the Company decided to establish the RaQualia Pharma Industry-Academia Collaborative Research Center in February 2018 with Nagoya University, a national university corporation. While the Company has set up one department and two laboratories at Nagoya University so far, they were integrated into two new departments ("Department of Pharmacology" and "Department of Pharmaceutical Sciences"). Through these efforts, the Company expects to be able to activate its research activities while promoting clinical research studies with the Graduate School of Medicine and also help Nagoya University create drug-candidate compounds.

Accordingly, financial results for the first three months, the reporting period, were as follows. Business revenue for the period was 396 million yen (down 5.1% year on year), operating loss totaled 240 million yen (compared with operating loss of 59 million yen a year earlier), ordinary loss totaled 285 million yen (compared with ordinary loss of 74 million yen a year earlier), and loss attributable to owners of parent was 311 million yen (compared with loss attributable to owners of parent of 65 million yen a year earlier). Total business expenses were 636 million yen (up 33.5% year on year). This total mainly consists of research and development expenses (386 million yen, a 95.8% increase from the same quarter last year) and other selling, general and administrative expenses (230 million yen, a 39.2% increase from the same quarter last year). Phase I clinical trial expenses incurred in the U.K. and royalty payments under the patent license agreement with CJ HealthCare Corporation (South Korea) ("CJ HealthCare (South Korea)") relating to a crystal form of tegoprazan, a potassium-competitive acid blocker, are recorded under the research and development expenses and other selling, general and administrative expenses, respectively. In the first three months, interest on securities of 5 million yen, foreign exchange losses of 54 million yen, and loss on redemption of investment securities of 14 million yen were recognized.

2) Research and development activities

Research and development expenses of the entire Group during the first three months were 386 million yen. The main components of these activities were as follows:

i. RaQualia's research and development and collaborative research

Exploratory and discovery phase

In a project to evaluate a selective sodium channel blocker compound for indications such as inflammatory pain, the Company has discovered multiple lead compounds and started investigation of preclinical efficacy.

The Company also conducts collaborative research with pharmaceutical companies, etc. In March 2018, the Company received a lump-sum payment associated with a milestone achievement in collaborative research with Asahi Kasei Pharma and concluded a license agreement with them. Asahi Kasei Pharma will perform development of curative medicines using this compound as an active ingredient.

The Company continued collaborative research with two companies.

Company	Start date	Content
Interprotein Corporation	February 2013	Collaboration on a specific protein-protein interaction (PPI) inhibitor for pain treatments
XuanZhu Pharma Co., Ltd.	December 2015	Collaboration on a specific ion channel target for pain treatments

Preclinical development phase

(a) Ghrelin receptor agonist (RQ-00433412)

The compound is under development for cancer-related anorexia/cachexia syndrome. The Company has completed investigation of preclinical efficacy and has not detected any inadequacy for moving on to the next stage of performing preclinical development study.

(b) TRPM8 blocker compounds (RQ-00434739)

The compound is under development for neuropathic pain (chemotherapy-induced cold allodynia). The Company has completed investigation of preclinical efficacy and has not detected any inadequacy for moving on to the next stage of performing preclinical development study.

(c) Motilin receptor agonist (RQ-00201894)

The compound is under development for gastroparesis, functional dyspepsia and post-operative ileus. The Company has completed the preclinical studies, including in vivo pharmacology studies, metabolism and pharmacokinetics studies, toxicity studies (GLP) and safety pharmacology studies (GLP), which were the prerequisite studies for Phase I clinical trials. So far, the Company has not detected any inadequacy for moving on to the next clinical development stage.

Clinical development phase

(a) 5-HT_4 partial agonist (RQ-00000010)

The compound is under development for gastroparesis, functional dyspepsia and chronic constipation. In August 2016, Virginia Commonwealth University, Parkinson's and Movement Disorders Center ("VCU") of the United States, a research partner of the Company, launched investigator-initiated clinical trials of the compound. These trials, while obtaining a research grant from The Michael J. Fox Foundation for Parkinson's Research, are currently under way as a clinical research program aimed to examine the safety and efficacy of the compound for managing gastroparesis, a complication of Parkinson's disease patients. The joint venture company formed with ZTE Biotech (China) is scheduled to carry out relevant development mainly in China.

(b) Potassium-competitive acid blocker (RQ-00000004, tegoprazan)

The compound is under development for gastro-esophageal reflux disease (RE/NERD), and the Company completed the Phase I clinical trials in Japan, following those in the U.S. Utilizing data on clinical trials in South Korea where development has been underway, we will continue consultations toward licensing out the compound.

(c) 5-HT_{2B} antagonist (RQ-00310941)

Regarding this compound under development for irritable bowel syndrome with diarrhea (IBS-D) as a target indication, the Phase I clinical trials (for healthy adults and patients) and the preparation of a clinical trial summary report have been completed in the U.K. The joint venture company formed with ZTE Biotech (China) is scheduled to carry out relevant development mainly in China.

ii. Status of development at licensee corporation

(a) Potassium-competitive acid blocker (RQ-00000004, tegoprazan)

The compound is under development primarily for gastro-esophageal reflux disease (RE/NERD) by CJ HealthCare (South Korea), and that company applied to South Korea's Ministry of Food and Drug Safety ("MFDS") for approval in August 2017. After it passes the new-drug approval procedure and gets listed in that country's National Health Insurance Service drug price list, it is scheduled to be launched in December 2018. In addition, development

continued smoothly in China.

(b) Serotonin 5-HT_{2A} and dopamine D_2 receptor blocker (ziprasidone)
The compound is under development for schizophrenia by Meiji Seika Pharma Co., Ltd., and is undergoing Phase III clinical trials in Japan. The agent has been marketed in 75 countries by Pfizer Inc. in the U.S., and accepted as a first-choice drug in its class according to guidelines for the treatment of mental disorders in the United States..

(c) EP4 antagonist (Galliprant®, RQ-00000007, AT-001, grapiprant, animal drug)
The compound was developed for pain management for pets by our licensee, Aratana (U.S.). In January 2017, the Company started selling it in the U.S. through Aratana (U.S.) and Elanco (U.S.). The Company also obtained approval for sale of this compound from the European Medicines Agency (EMA) in January 2018, and started to make relevant preparations for its sale in Europe.

(d) Ghrelin receptor agonist (Entyce®, RQ-00000005, AT-002, capromorelin, animal drug)
The compound was developed for anorexia management for pets by Aratana (U.S.) and was launched for sale in October 2017 by Aratana (U.S.).
While continuing the program to develop the compound as a cat anorexia management drug, Aratana (U.S.) launched long-term toxicity studies on cats in December 2016.

(e) EP4 antagonist (RQ-00000007, AAT-007, grapiprant)
Preparations are currently underway at a licensee of AskAt Inc. ("AskAt") for implementing clinical trials.

(f) EP4 antagonist (RQ-00000008, AAT-008)
Preparations are currently underway at a licensee of AskAt for development.

(g) Cyclooxygenase-2 (COX-2) inhibitor (RQ-00317076, AAT-076)
Preparations are currently underway at a licensee of AskAt for implementing clinical trials.

(h) Selective sodium channel blocker (no compound code disclosed)
The compound was licensed out to Maruho Co., Ltd. ("Maruho") in December 2017. Maruho will carry out development of curative medicines using this compound as an active ingredient.

(i) P2X7 receptor antagonist (RQ-00466479, AKP-23494954)
This compound was created through joint research with Asahi Kasei Pharma and licensed out when the research moved to the preclinical development phase in March 2018. Asahi Kasei Pharma will carry out relevant development to create a new therapeutic agent for neuropathic pain treatment using this compound as an active ingredient.

(2) Qualitative information regarding consolidated financial position

1) Analysis of assets, liabilities and net assets

Assets

Total assets as of March 31, 2018 were 4,786 million yen. The major components were 1,943 million yen in cash and deposits, 280 million yen in property, plant and equipment, and 1,729 million yen in investment securities.

Liabilities

Total liabilities as of March 31, 2018 were 202 million yen. The major components were 110 million yen in accounts payable - other and 44 million yen in accrued expenses.

Net assets

Total net assets as of March 31, 2018 were 4,584 million yen. The major components were 2,774 million yen in capital stock, 2,964 million yen in capital surplus, negative 1,097 million yen in retained earnings, and negative 72 million yen in valuation difference on available-for-sale securities. The equity ratio was 95.5%.

2) Analysis of cash flows

The balance of cash and cash equivalents (hereafter "cash") as of March 31, 2018 amounted to 2,152 million yen (compared with 1,129 million yen a year earlier), a decrease of 321 million yen compared with the beginning of the fiscal year under review.

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

Cash flows from operating activities

Net cash used in operating activities was 68 million yen (compared with 376 million yen used a year earlier). This is mainly attributable to the recording of loss before income taxes of 299 million yen, increase in prepaid expenses of 160 million yen, decrease in advance payments - trade of 171 million yen, and decrease in notes and accounts receivable - trade of 133 million yen.

Cash flows from investing activities

Net cash used in investing activities was 266 million yen (compared with 269 million yen provided a year earlier). This is mainly attributable to the proceeds from redemption of securities of 113 million yen, proceeds from redemption of investment securities of 210 million yen, purchase of investment securities of 516 million yen, and purchase of property, plant and equipment of 71 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 64 million yen (no comparable figures in a year earlier). This is attributable to the proceeds from issuance of shares resulting from exercise of subscription rights to shares.

(3) Qualitative information regarding consolidated earnings forecasts

There has been no change to the figures contained in the "Summary of Consolidated Financial Results for the Fiscal Year ended December 31, 2017 (JGAAP)" announced on February 9, 2018. The Company carefully examines business revenue and business expenses whenever necessary, and in the case that any revisions are made to the expected earnings forecasts due to changes made to the estimated amounts for the fiscal year under review, the Company will make relevant announcements immediately.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	2,268,024	1,943,765
Accounts receivable - trade	448,738	315,328
Securities	328,957	218,799
Supplies	5,153	4,868
Advance payments - trade	189,743	17,810
Prepaid expenses	62,150	222,827
Other	19,631	20,891
Total current assets	3,322,398	2,744,290
Non-current assets		
Property, plant and equipment		
Buildings, net	100,442	97,601
Tools, furniture and fixtures, net	115,237	179,491
Leased assets, net	–	3,374
Total property, plant and equipment	215,680	280,468
Intangible assets		
Trademark right	4,945	4,722
Software	4,383	4,268
Other	626	626
Total intangible assets	9,955	9,617
Investments and other assets		
Investment securities	1,503,443	1,729,650
Long-term prepaid expenses	2,126	10,574
Other	10,584	12,252
Total investments and other assets	1,516,154	1,752,477
Total non-current assets	1,741,790	2,042,563
Total assets	5,064,188	4,786,853

(Thousands of yen)

	As of December 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Accounts payable - trade	1,984	2,175
Lease obligations	–	741
Accounts payable - other	63,365	110,487
Accrued expenses	43,997	44,352
Income taxes payable	20,691	6,467
Accrued consumption taxes	13,907	7,481
Advances received	1,101	–
Deposits received	3,716	6,153
Total current liabilities	148,763	177,859
Non-current liabilities		
Lease obligations	–	2,965
Deferred tax liabilities	15,730	9,599
Asset retirement obligations	11,743	11,767
Total non-current liabilities	27,474	24,331
Total liabilities	176,237	202,191
Net assets		
Shareholders' equity		
Capital stock	2,741,249	2,774,690
Capital surplus	2,931,032	2,964,473
Retained earnings	(785,652)	(1,097,294)
Treasury shares	(21)	(21)
Total shareholders' equity	4,886,607	4,641,847
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(15,826)	(72,052)
Total accumulated other comprehensive income	(15,826)	(72,052)
Subscription rights to shares	17,168	14,867
Total net assets	4,887,950	4,584,662
Total liabilities and net assets	5,064,188	4,786,853

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

Consolidated statement of income (cumulative)

(Thousands of yen)

	First three months ended March 31, 2017	First three months ended March 31, 2018
Business revenue	417,790	396,371
Business expenses		
Cost of business revenue	113,614	18,944
Research and development expenses	197,573	386,879
Other selling, general and administrative expenses	165,711	230,618
Total business expenses	476,899	636,443
Operating loss	(59,109)	(240,071)
Non-operating income		
Interest income	1,397	2,074
Interest on securities	13,317	5,885
Other	119	1,870
Total non-operating income	14,835	9,829
Non-operating expenses		
Foreign exchange losses	27,278	54,082
Loss on valuation of compound financial instruments	2,370	840
Share issuance cost	–	528
Other	100	–
Total non-operating expenses	29,748	55,450
Ordinary loss	(74,022)	(285,692)
Extraordinary income		
Gain on sales of investment securities	5,448	–
Gain on bargain purchase	3,278	–
Total extraordinary income	8,727	–
Extraordinary losses		
Loss on redemption of investment securities	–	14,292
Total extraordinary losses	–	14,292
Loss before income taxes	(65,294)	(299,984)
Income taxes - current	3,467	11,740
Income taxes - deferred	(3,228)	(82)
Total income taxes	238	11,657
Loss	(65,533)	(311,641)
Profit attributable to non-controlling interests	–	–
Loss attributable to owners of parent	(65,533)	(311,641)

Consolidated statement of comprehensive income (cumulative)

(Thousands of yen)

	First three months ended March 31, 2017	First three months ended March 31, 2018
Loss	(65,533)	(311,641)
Other comprehensive income		
Valuation difference on available-for-sale securities	(48,059)	(56,225)
Total other comprehensive income	(48,059)	(56,225)
Comprehensive income	(113,592)	(367,867)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(113,592)	(367,867)
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statement of cash flows

(Thousands of yen)

	First three months ended March 31, 2017	First three months ended March 31, 2018
Cash flows from operating activities		
Loss before income taxes	(65,294)	(299,984)
Depreciation	19,396	21,656
Interest income	(1,397)	(2,074)
Interest income on securities	(13,317)	(5,885)
Foreign exchange losses (gains)	13,899	53,240
Loss (gain) on valuation of compound financial instruments	2,370	840
Gain on bargain purchase	(3,278)	–
Loss (gain) on redemption of investment securities	–	14,292
Loss (gain) on sales of investment securities	(5,448)	–
Decrease (increase) in notes and accounts receivable - trade	(268,833)	133,410
Decrease (increase) in inventories	168	284
Increase (decrease) in notes and accounts payable - trade	116,394	191
Decrease (increase) in advance payments	(3,328)	171,933
Decrease (increase) in prepaid expenses	(163,182)	(160,676)
Decrease (increase) in long-term prepaid expenses	98	(8,448)
Increase (decrease) in accounts payable - other	(28,051)	37,587
Increase (decrease) in income taxes payable - factor based tax	4,218	(12,018)
Other, net	9,192	(5,351)
Subtotal	(386,395)	(61,002)
Interest and dividend income received	12,320	7,845
Income taxes paid	(2,296)	(15,098)
Net cash provided by (used in) operating activities	(376,370)	(68,255)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	340,462	–
Proceeds from redemption of securities	–	113,040
Purchase of property, plant and equipment	(42,660)	(71,082)
Purchase of intangible assets	(760)	–
Purchase of investment securities	(170,000)	(516,583)
Proceeds from sales of investment securities	128,000	–
Proceeds from redemption of investment securities	15,000	210,860
Other, net	(259)	(2,421)
Net cash provided by (used in) investing activities	269,782	(266,187)
Cash flows from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	–	64,748
Net cash provided by (used in) financing activities	–	64,748
Effect of exchange rate change on cash and cash equivalents	(8,490)	(51,656)
Net increase (decrease) in cash and cash equivalents	(115,079)	(321,350)
Cash and cash equivalents at beginning of period	1,244,490	2,473,916
Cash and cash equivalents at end of period	1,129,411	2,152,565

(4) Notes to quarterly consolidated financial statements

Notes on premise of going concern

No items to report.

Notes on significant changes in the amount of shareholders' equity

No items to report.

Segment information, etc.

[Segment information]

I. For the first three months ended March 31, 2017 (January 1, 2017 to March 31, 2017)
This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

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

Significant subsequent event

No items to report.