February 14, 2024

Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 (JGAAP)

Listed company's name: RaQualia Pharma Inc.
Listed on: Tokyo Stock Exchange (TSE)
Stock code: 4579
URL: https://www.raqualia.com/en/
Representative: Hirobumi Takeuchi, President and CEO
Contact: Hidefumi Sugiyama, General Manager, Finance & Accounting Dept. (TEL) +81-52-446-6100
Scheduled date of general meeting of shareholders: March 26, 2024
Scheduled date of dividend payment: —
Scheduled date of filing of securities report: March 27, 2024
Supplementary documents for financial results: Yes
Financial results briefing: Yes

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

1. Consolidated financial results for the fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(1) Consolidated operating results

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	million yen	%	million yen	%	million yen	%	million yen	%
December 31, 2023	1,901	(34.8)	(337)	–	(293)	–	(323)	–
December 31, 2022	2,918	5.1	866	22.4	904	4.7	723	(4.3)

Note: Comprehensive income Fiscal year ended December 31, 2023: (197) million yen [–%]
Fiscal year ended December 31, 2022: 693 million yen [(10.5)%]

	Earnings per share (Basic)	Earnings per share (Diluted)	Profit/equity	Ordinary profit/ total assets	Operating profit/ net sales
Fiscal year ended	yen	yen	%	%	%
December 31, 2023	(14.98)	–	(5.6)	(4.5)	(17.7)
December 31, 2022	34.50	34.47	14.1	15.7	29.7

Reference: Share of (profit) loss of entities accounted for using equity method:
Fiscal year ended December 31, 2023: – million yen
Fiscal year ended December 31, 2022: – million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	million yen	million yen	%	yen
December 31, 2023	6,871	6,120	88.7	281.87
December 31, 2022	6,257	5,496	87.7	261.65

Reference: Equity As of December 31, 2023: 6,094 million yen As of December 31, 2022: 5,488 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	million yen	million yen	million yen	million yen
December 31, 2023	(718)	(135)	793	3,664
December 31, 2022	1,480	(47)	(29)	3,679

2. Dividends

	Annual dividends per share					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended December 31, 2022	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ended December 31, 2023	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ending December 31, 2024 (forecast)	–	0.00	–	0.00	0.00		–	

3. Forecasts of consolidated financial results for the fiscal year ending December 31, 2024 (January 1, 2024 to December 31, 2024)

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

	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, 2024	4,535	138.5	313	–	290	–	236	–	10.91

Note: As the Company conducts performance management on an annualized basis, forecasts of results over a six-month period are not presented.

*** Notes**

(1) Changes in significant subsidiaries during the fiscal year ended December 31, 2023 (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) 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: Yes

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

c. Changes in accounting estimates: None

d. Restatements of prior financial statements: None

Note: For more details, please refer to the section of "(5) Notes to consolidated financial statements (Changes in accounting policies)" of "3. Consolidated financial statements and significant notes thereto" on page 17 of the attached material.

(3) Number of issued shares (common shares)

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

As of December 31, 2023	21,623,281 shares
As of December 31, 2022	20,977,181 shares

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

As of December 31, 2023	51 shares
As of December 31, 2022	50 shares

c. Average number of outstanding shares during the period

For the fiscal year ended December 31, 2023	21,606,239 shares
For the fiscal year ended December 31, 2022	20,969,376 shares

(Reference) Overview of non-consolidated financial results

Non-consolidated financial results for the fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(1) Non-consolidated operating results

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

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	million yen	%	million yen	%	million yen	%	million yen	%
December 31, 2023	1,642	(38.7)	(478)	–	(444)	–	(431)	–
December 31, 2022	2,681	13.5	683	35.1	701	6.9	583	(5.1)

	Earnings per share (Basic)	Earnings per share (Diluted)
Fiscal year ended	yen	yen
December 31, 2023	(19.95)	–
December 31, 2022	27.83	27.81

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	million yen	million yen	%	yen
December 31, 2023	6,596	5,862	88.5	269.95
December 31, 2022	6,091	5,346	87.6	254.49

Reference: Equity As of December 31, 2023: 5,837 million yen As of December 31, 2022: 5,338 million yen

*** Financial results reports are exempt from audit 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.

Moreover, as notified in “Notice Concerning Acquisition of Shares of FIMECS, Inc. (Conversion to a Subsidiary),” announced today, the Company is to acquire all shares of FIMECS, Inc. on March 26, 2024, converting it into a consolidated subsidiary. This conversion to a consolidated subsidiary has been factored into the financial forecast figures.

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

The Company plans to hold financial results briefings for institutional investors and analysts on Thursday, February 15, 2024, and for general investors on Friday, February 16, 2024.

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

Contents of attachment

1. Overview of consolidated operating results and others

(1) Overview of consolidated operating results for the fiscal year under review

(General overview)

During the fiscal year ended December 31, 2023, the Japanese economy showed a modest recovery due to the normalization of economic activities following the COVID-19 pandemic. According to the Bank of Japan's quarterly short-term economic survey in December 2023, business sentiment among large enterprises in the non-manufacturing sector rose for the seventh consecutive quarter on the back of a recovery in holiday and inbound demand, while business sentiment among large enterprises in the manufacturing sector also improved for the third consecutive quarter on the back of improved terms of trade due to falling energy prices and firm production of automobiles and other end products. In the pharmaceutical industry, as in the previous year, the year continued to be marked by discussions in various forums about issues such as the worsening drug lag/drug loss and insecurity in the supply of pharmaceutical products, especially generics. At the meeting of the Special Committee on Drug Prices of the Central Social Insurance Medical Council (Chuikyo), opinions were also heard from industry associations in preparation for the next reform of the National Health Insurance (NHI) drug price system in April 2024 and discussions were held on measures to promote both innovation and the sustainability of the universal health insurance system, as well as for the rapid introduction of innovative new drugs. In addition, following the report of the Ministry of Health, Labour and Welfare Expert Panel on "Comprehensive Measures to Achieve a Rapid and Stable Supply of Pharmaceuticals," discussions are underway to review pharmaceutical regulations and to change the industrial structure of generic drugs.

Such industry trends had no small impact on the business activities of drug discovery venture companies, like the Group, that operate a drug discovery business.

Under such conditions, the business activities of the Group during the fiscal year under review were as follows.

Regarding human drug products, sales of K-CAB® (generic name: tegoprazan)—gastric acid secretion inhibitor marketed by HK inno.N Corporation (headquarters: Osong, South Korea, "HK inno.N")—in South Korea continued to perform well from the previous year, with sales in the fiscal year from external prescriptions of 158.2 billion won, an increase of 19.8% compared with the previous fiscal year, equivalent to approximately 17.4 billion yen at 0.11 yen to the won, maintaining the No. 1 share in the South Korean gastric acid secretion inhibitor market.

Global expansion of tegoprazan also progressed well. The Company has executed exclusive license agreements with HK inno.N for the development, marketing, and manufacturing of tegoprazan with sublicensing rights. As of the end of the fiscal year under review, in 35 countries outside of South Korea, the companies that have entered into the license agreements with HK inno.N (the "sublicensees") are engaged in development, manufacturing, and marketing in their respective countries and regions. During the fiscal year under review, tegoprazan products were launched in Mexico, Indonesia, Singapore, and Peru. With these launches, tegoprazan are now being marketed in eight countries: South Korea, China, Mongolia, the Philippines, Mexico, Indonesia, Singapore, and Peru. In China, which is the second country following South Korea, where tegoprazan products were launched in 2022 by the sublicensee, Shandong Luoxin Pharmaceutical Group Co., Ltd. (headquarters: Shandong Province, China, "Luoxin") and tegoprazan is currently marketed in 31 provinces and administrative regions, as they are now eligible for reimbursement under the national basic medical insurance program from March 2023. In addition, the product is under review or in preparation for submission for approval in approximately 20 countries, including Thailand, Vietnam, and Argentina. In the U.S., the world's second-largest market after China, a Phase III clinical trial is underway by Braintree Laboratories (headquartered in Massachusetts, U.S.; "Braintree"), a sublicensee, and an application for approval is expected in 2024. As a result of the above progress, the Company received milestone income or a portion of the income earned by HK inno.N from its sublicensees based on development progress in accordance with the agreement with HK inno.N.

With regard to pet drugs, sales were strong for GALLIPRANT® (generic name: grapiprant), which is a drug for osteoarthritis in dogs, and ENTYCE® (generic name: capromorelin), which has an indication for anorexia management for dogs, and ELURA® (generic name: capromorelin), which has an indication for weight loss management in cats with chronic kidney failure, all of which were licensed to Elanco Animal Health Inc. (headquarters: Indiana, U.S., "Elanco"). Since there is no official drug price system for pet pharmaceuticals, the industry is characterized by the fact that drug prices are not cut as in human pharmaceuticals, and manufacturers have strong pricing power for products highly rated by pet owners. Under these circumstances, the sales royalty income for the Company increased. In June 2023, the European Medicines Agency (EMA) approved ELURA® for the management of anorexia and weight loss in cats with chronic diseases, but the product was not launched during the fiscal year under review, and the achievement of the milestone assumed in the plan at the beginning of the fiscal year has been postponed to the next fiscal year.

Licensed programs are also steadily progressing in preclinical trials and clinical development at licensee and sublicensee companies. As new progress in the fiscal year under review regarding the cannabinoid CB2 receptor agonist (RQ-00202730/AAT-730/OCT461201) assigned by the Company to AskAt Inc. (headquarters: Nagoya, Aichi, "AskAt") and further

licensed by AskAt to Oxford Cannabinoid Technologies Ltd. (headquarters: London, U.K., "OCT"), OCT initiated Phase I clinical trials in the U.K. OCT plans to pursue further clinical development with chemotherapy-induced peripheral neuropathy (CIPN) as the primary indication. In addition, pre-clinical studies have been completed for the TRPM8 blocker (RQ-00434739/XG2002) licensed to Xgene Pharmaceutical Co. Ltd. (headquarters: Hong Kong, "Xgene"), and Xgene is now preparing for Phase I clinical trials. Pre-clinical and clinical trials were also conducted for other out-licensed programs at licensee companies.
In addition, one new license agreement was concluded during the fiscal year under review. In April 2023, the Company and Vetbiolix SAS (headquarters: Nord, France; "Vetbiolix") agreed to enter into an option and license agreement for a 5-HT_4 agonist (RQ-00000010), to develop pet drugs for the treatment of gut motility disorders in dogs and cats. Under the terms of the agreement, Vetbiolix is granted an exclusive option for an exclusive, worldwide, and sublicensable license to develop, manufacture and market veterinary medicines containing RQ-00000010. Upon exercise of the exclusive option, Vetbiolix will pay option fees to the Company, and the Company will acquire the right to receive milestone payments based on development progress and the sales royalty based on the product sales.

For pre-licensing programs, the Company has conducted business development activities aimed at acquiring further licensees through a flexible combination of face-to-face meetings and online conferences. Although the Company holds the rights to develop, manufacture, and market tegoprazan in Japan, in order to achieve a speedy launch of the drug in Japan, the Company has changed its policy to concentrate on licensing activities forgoing clinical trials in-house and has proceeded in discussions with candidate partner companies. The initial plan was to conclude a license agreement during the fiscal year under review, but the agreement was not concluded and has been postponed to the next fiscal year. For the ghrelin receptor agonist, which the Company is developing in-house with the aim of securing a large license agreement, the Company has been conducting pre-clinical studies and manufacture active pharmaceutical ingredients (APIs) for clinical trials.
In the discovery research stage, the Company is focusing on discovery research programs to generate development compounds, and is also working to strengthen its drug discovery research capabilities, which are central to its growth strategy. In the fiscal year under review, focusing on four areas, "modality," "drug target," "disease area," and "basic technology," the Company is aiming to establish a next-generation in-house drug discovery value chain through synergy effects from existing technologies and new initiatives. In addition to its own independent research, it has strengthened its collaboration with startups and drug discovery ventures. As part of those efforts, the Company has been collaborating with Veritas In Silico, Inc. (headquarters: Shinagawa-ku, Tokyo; hereinafter "Veritas In Silico") since December 2022 to create mRNA-targeted small molecule drugs that target multiple genes related to cancer diseases and in December 2023, the two companies achieved a predetermined milestone. In addition, in the fiscal year under review, the Company started a new collaboration with leadXpro AG (headquartered in Villigen, Switzerland) to accelerate drug discovery research through 3D structural analysis of membrane proteins. Furthermore, we have established a new research base at Shonan Health Innovation Park (Fujisawa City, Kanagawa Prefecture) for the purpose of accelerating these efforts. In joint research with ASKA Pharmaceutical Co., Ltd. (headquarters: Minato-ku, Tokyo), which has been ongoing since July 2019, the joint research agreement was terminated in June 2023 with the agreement of both companies.

Clinical trials for the treatment of myelodysplastic syndrome (MDS) and acute myeloid leukemia (AML) are underway in the U.S. for a retinoic acid receptor alpha agonist (tamibarotene, TM-411/SY-1425), licensed by the Company's consolidated subsidiary TMRC Co., Ltd. ("TMRC") to Syros Pharmaceuticals Inc. (headquarters: Massachusetts, U.S., "Syros"). With regard to MDS, a Phase III clinical trial using patients with high-risk myelodysplastic syndrome (HR-MDS) overexpressing the RARA gene is ongoing. Regarding AML, in December 2023, Syros announced initial data from the randomized Phase II clinical trial part of the study. In connection with these activities, during the year ended December 31, 2023, TMRC received fees related to the clinical development from Syros.

In addition, for the issuance of new shares through third-party allotment and the 16th series of share acquisition rights to CVI Investments, Inc. (headquartered in the Cayman Islands) as resolved by the Board of Directors on December 20, 2022, the payment procedure was completed on January 5, 2023. As a result, the Company raised 786 million yen.

Accordingly, financial results for the fiscal year under review were as follows. Business revenue for the period was 1,901 million yen (down 34.8% year on year), operating loss totaled 337 million yen (compared with operating profit of 866 million yen a year earlier), ordinary loss totaled 293 million yen (compared with ordinary profit of 904 million yen a year earlier), and loss attributable to owners of parent was 323 million yen (compared with profit attributable to owners of parent of 723 million yen a year earlier).

Total business expenses were 2,238 million yen (up 9.1% year on year). In terms of the breakdown of this total, in addition to cost of business revenue of 245 million yen (up 5.8% year on year), research and development expenses were 1,372 million yen (up 9.9% year on year) and other selling, general and administrative expenses came to 620 million yen (up 8.6% year on year).

(Research and development activities)

Research and development expenses of the Group during the fiscal year ended December 31, 2023 were 1,372 million yen. The main components of these activities were as follows:

<RaQualia's research and development and collaborative research>

(A) Clinical development phase

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

The rights to this compound for the target indication of gastroesophageal reflux disease (GERD) and other gastric acid-related diseases have been licensed to HK inno.N for regions other than Japan, while the Company holds the rights in Japan. In the fiscal year under review, in order to achieve a speedy launch of the drug in Japan, the Company has decided to forgo conducting clinical trials in-house and concentrate on licensing activities and had discussions with candidate partner companies. The initial plan was to conclude a license agreement during the fiscal year under review, but the agreement was not concluded and has been postponed to the next fiscal year.

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

Regarding this compound for the target indication of gastrointestinal dysmotility, including gastroparesis, functional dyspepsia, and chronic constipation, partnering activity was promoted as a post-Phase I clinical trials licensing preparation program. As a result, for pet pharmaceutical applications, the Company entered into an option and license agreement with Vetbiolix for the treatment of intestinal motility disorders in dogs and cats during the fiscal year under review.

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

This compound for the target indication of irritable bowel syndrome with diarrhea (IBS-D) is also in a post-Phase I clinical trials licensing preparation program.

(B) Preclinical development phase

a) Ghrelin receptor agonist (RQ-00433412)

This compound is under development for the target indication of cancer-related anorexia/cachexia syndrome and constipation resulting from spinal cord injury. Continuing from the previous year, pre-clinical studies and manufacture active pharmaceutical ingredients (APIs) for clinical trials were outsourced in the fiscal year under review.

b) Motilin receptor agonist (RQ-00201894)

This compound is under development for the target indication of gastrointestinal dysmotility including gastroparesis, functional dyspepsia, and post-operative ileus, and is in a licensing preparation program, as the preclinical studies required for Phase I clinical trials have been completed.

c) TRPM8 blocker (RQ-00434739)

Based on the license agreement signed in September 2021, the rights to this compound have been licensed to Xgene for regions other than Japan, while the Company continues to hold the rights in Japan. In the fiscal year under review, the Company provided support to Xgene for the start of pre-clinical studies.

(C) Exploratory research phase

a) Independent research project

In addition to promoting exploratory research aimed at the discovery of development candidate compounds, the Company is also working to strengthen its drug discovery research capabilities, which are central to its growth strategy. In addition to the joint research with pharmaceutical companies listed below, also in independent research projects, the Company is aiming to establish a next-generation in-house drug discovery value chain through the synergy effects from existing technologies and new initiatives in four areas: "modality," "drug target," "disease area," and "fundamental technology."

b) Collaborative research with companies

Collaborative research implemented with companies in the fiscal year under review is as follows.

Company	Start date	Content
ASKA Pharmaceutical Co., Ltd.	July 2019	Collaborative research with respect to drug discovery research targeting at a specific ion channel
SOCIUM Inc.	May 2022	Collaborative research to explore the potential of the Company's compounds for intractable and rare diseases

Company	Start date	Content
STAND Therapeutics Co., Ltd.	August 2022	Verification of the feasibility of drug discovery application of intracellular antibody technology (from STAND) for the creation of therapeutic agents for intractable and rare diseases
D. Western Therapeutics Institute	December 2022	Collaborative research for discovery of therapeutic drugs for ocular diseases
Veritas In Silico Inc.	December 2022	Collaborative research for discovery of small-molecule drugs targeting messenger RNA (mRNA)
leadXpro AG	April 2023	Three-dimensional structural analysis of membrane proteins

c) Collaborative research with academia

Multiple early-stage collaborative research projects, such as drug target discovery, are in progress with universities and other public research institutions, including Nagoya University and Gifu Pharmaceutical University.

<Status of development at licensee corporation>

a) tegoprazan (K-CAB®, RQ-00000004/LXI-15028, etc.)

HK inno.N launched K-CAB® 25mg, which is a new drug product that contains half the amount of tegoprazan compared to the current drug, in South Korea in January 2023 as a maintenance treatment for patients with cured erosive esophagitis. This means K-CAB® is the only Potassium Competitive Acid Blocker (P-CAB)-based gastric acid secretion inhibitor marketed in South Korea that can be used in all stages of erosive esophagitis, from onset to after it is cured. The five approved indications in Korea are erosive gastro-esophageal reflux disease, non-erosive gastro-esophageal reflux disease, gastric ulcer, adjuvant therapy for Helicobacter pylori eradication, and maintenance treatment for patients with cured erosive gastro-esophageal reflux disease.

In China, it has been eligible for reimbursement under China's public health insurance system since March 2023, and tegoprazan products are currently marketed in 31 provinces and administrative regions by Luoxin, a sublicensee (Chinese brand name (registered trademark): Taixinxan®). In November 2023, Luoxin received marketing approval from the Chinese authorities for the treatment of duodenal ulcers. This brings the total number of approved indications for manufacturing and marketing in China to two: erosive gastro-esophageal reflux disease and duodenal ulcers. Duodenal ulcers are one of the most common and frequent chronic diseases in China, accounting for about 70% of all peptic ulcers. In addition, Luoxin completed a Phase III clinical trial for adjuvant therapy for Helicobacter pylori eradication and submitted an application to the Chinese authorities for approval.

With respect to other countries and regions, during the fiscal year under review, tegoprazan products were launched in Mexico, Indonesia, Singapore, and Peru. With these launches, tegoprazan are now being marketed in eight countries: South Korea, China, Mongolia, the Philippines, Mexico, Indonesia, Singapore, and Peru. In addition, the product is currently under review or in preparation for submission for approval in more than 20 countries around the world, including Thailand, Vietnam, Malaysia, Argentina, Brazil, and India. In the U.S., Braintree is conducting a Phase III clinical trial in patients with erosive gastro-esophageal reflux disease and non-erosive gastro-esophageal reflux disease since October 2022 and is expected to file for approval in 2024.

b) EP4 antagonist (GALLIPRANT®, grapiprant)

This compound is currently being marketed as a drug for osteoarthritis in dogs by Elanco. Since its launch in the U.S. in January 2017, the compound has been launched in over 20 countries around the world and is also being marketed in Japan since October 2020.

c) Ghrelin receptor agonist (ENTYCE®, ELURA®, capromorelin)

Two products containing capromorelin, a ghrelin receptor agonist, as an active ingredient are currently being marketed in the U.S.: ENTYCE® for the treatment of anorexia in dogs and ELURA® for the management of weight loss in cats with chronic kidney disease (CKD). In June 2023, the European Medicines Agency (EMA) approved ELURA® for the management of anorexia and weight loss in cats with chronic diseases, but the product was not launched during the fiscal year under review, and the achievement of the milestone assumed in the plan at the beginning of the fiscal year has been postponed to the next fiscal year.

d) P2X7 receptor antagonist (RQ-00466479/AK1780)

Eli Lilly is currently conducting Phase II clinical trials for the compound, which was created through collaborative research with Asahi Kasei Pharma and licensed to Eli Lilly and Company (Head Office: Indianapolis, Indiana, USA; "Lilly") by Asahi Kasei Pharma, for the treatment of patients with chronic pain.

e) EP4 antagonist (RQ-00000007/AAT-007, grapiprant)

AskAt's licensee 3D Medicines Inc. (headquarters: Shanghai, China, "3DM") completed Phase I clinical trials in China for the indication of pain, and Ningbo NewBay Medical Technology Development Co., Ltd. (headquarters: Zhejiang, China), another of AskAt's licensees, is conducting Phase I clinical trials in China in the area of oncology.

In the U.S., Ikena Oncology Inc. (headquartered in Massachusetts, U.S.), a licensee of AskAt, was conducting Phase I clinical trials for the cancer immunotherapy drug. However, in September 2023, AskAt announced the termination

of the sublicensing agreement on March 20, 2024. AskAt will now implement strategic options, including the selection of a new partner.

f) Cyclooxygenase-2 (COX-2) inhibitor (RQ-00317076/AAT-076)
AskAt's licensee, 3DM, continues to conduct Phase I clinical trials in China for the indication of pain. In addition, Velo-1, Inc. (headquartered in Tennessee, U.S.A.) is preparing to develop a pet pharmaceutical application.

g) CB2 agonist (RQ-00202730/AAT-730/OCT461201)
In July 2023, OCT, a licensee of AskAt, initiated a Phase I clinical trial of this compound in the United Kingdom. OCT plans to pursue further clinical development with this compound for chemotherapy-induced peripheral neuropathy ("CIPN") as the primary indication.

h) TRPM8 blocker (RQ-00434739/XG2002)
In December 2023, Xgene, the licensee, announced that it was preparing to start Phase I clinical trials in Australia for the development of a drug for the treatment of chronic pain. In addition, the company announced that the compound exhibited favorable analgesic effects in various animal models of pain and had no effect on the cardiovascular, respiratory, or central nervous systems, and that the compound also exhibited favorable characteristics in terms of pharmacokinetics.

i) Sodium channel blocker (RQ-00350215)
For this compound licensed to Hisamitsu Pharmaceutical Co., Inc. (headquarters: Tosu, Saga, "Hisamitsu Pharmaceutical") in December 2021, Hisamitsu Pharmaceutical is conducting pre-clinical studies for the development of a transdermal chronic pain treatment.

j) Development candidate compound for a specific ion channel target (no compound code disclosed)
Regarding this compound discovered through collaborative research with EA Pharma Co., Ltd. (headquarters: Chuo, Tokyo, "EA Pharma"), EA Pharma continues to develop it.

k) Selective sodium channel blocker (no compound code disclosed)
Regarding this compound licensed to Maruho Co., Ltd. (headquarters: Osaka, Osaka, "Maruho"), Maruho continues to develop it.

l) 5-HT_4 partial agonist (RQ-00000010)
The compound licensed to Vetbiolix in the fiscal year under review is being developed by Vetbiolix for the expected indications of megacolon in cats and gastroparesis in dogs.

m) Retinoic acid receptor alpha agonist (tamibarotene, TM-411/SY-1425)
Syros, TMRC's licensee, is conducting clinical trials in the U.S. for MDS and AML. For MDS, a Phase III clinical trial using HR-MDS patients is ongoing, and in January 2023, Syros received fast-track designation from the U.S. Food and Drug Administration (FDA). Syros expects to complete patient enrollment in this Phase III clinical trial in the first quarter of 2024 and report trial results in the fourth quarter of 2024. Regarding AML, in December 2023, Syros announced initial data from the ongoing randomized Phase II clinical trial part of the study. In the announcement, Syros noted that the study's primary endpoint of complete response (CR)/complete remission with incomplete hematological recovery (CRi) was 100% in evaluable patients (9 of 9 patients) who received the triple combination of tamibarotene, venetoclax and azacitidine, compared to 70% in control patients (7 of 10) who received the double combination of venetoclax and azacitidine, and initial data on the safety of the triple combination were also presented showing good tolerability. Syros is continuing to enroll patients in this Phase II clinical trial and expects to report updated data from the trial in 2024.

(2) Overview of consolidated financial position for the fiscal year under review

Assets

Total assets as of December 31, 2023 were 6,871 million yen, an increase of 614 million yen (up 9.8%) from the end of the previous fiscal year. This is mainly attributable to a decrease in marketable securities of 200 million yen, an increase in supplies of 138 million yen, an increase in lease assets of 96 million yen, and an increase in investment securities of 243 million yen.

Liabilities

Total liabilities as of December 31, 2023 were 751 million yen, a decrease of 9 million yen (down 1.2%) from the end of the previous fiscal year. This is mainly attributable to a decrease in accounts payable of 73 million yen, an increase in lease obligations of 105 million yen, and a decrease in accounts payable - other of 47 million yen.

Net assets

Total net assets as of December 31, 2023 were 6,120 million yen, an increase of 623 million yen (up 11.3%) from the end of the previous fiscal year. This is mainly attributable to an increase in share capital and capital surplus of 786 million yen due to capital increase through third-party allotment, and the recording of loss attributable to owners of parent of 323 million yen.

Consequently, the equity ratio was 88.7% (up 1.0 percentage points from the end of the previous fiscal year).

(3) Overview of cash flows for the fiscal year under review

The balance of cash and cash equivalents ("net cash") as of December 31, 2023 amounted to 3,664 million yen, a decrease of 14 million yen (down 0.4%) from the end of the previous fiscal year.

The respective cash flows in the fiscal year under review and the factors thereof are as follows.

Cash flows from operating activities

Net cash used in operating activities was 718 million yen, a decrease of 2,198 million yen (compared with net cash of 1,480 million yen provided a year earlier). This is mainly attributable to the recording of loss before income taxes of 294 million yen and depreciation of 175 million yen, as well as use of cash due to an increase in inventories of 139 million yen and income taxes paid of 121 million yen.

Cash flows from investing activities

Net cash used in investing activities was 135 million yen, an increase of 87 million yen (up 184.1% year on year). This is mainly attributable to the purchase of property, plant and equipment of 204 million yen, purchase of investment securities of 160 million yen, and proceeds from redemption of investment securities of 250 million yen.

Cash flows from financing activities

Net cash provided by financing activities was 793 million yen, an increase of 823 million yen (compared with net cash of 29 million yen used a year earlier). This is mainly attributable to proceeds from long-term borrowings of 50 million yen, proceeds from issuance of shares of 782 million yen, and repayments of lease liabilities of 52 million yen.

(Reference) Trend in cash flow-related indicators

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Equity ratio (%)	95.3	94.1	91.3	87.7	88.7
Market value equity ratio (%)	580.9	492.8	470.0	413.0	216.6
Interest-bearing debt to cash flow ratio (years)	–	–	0.1	0.2	–
Interest coverage ratio (factor)	–	–	252	247	–

Equity ratio: equity / total assets

Market value equity ratio: market capitalization / total assets

Interest-bearing debt to cash flow ratio: interest-bearing debt / cash flow

Interest coverage ratio: cash flow / paid interest

Note 1. Interest-bearing debt to cash flow ratio and interest coverage ratio for the fiscal year ended December 31, 2019, the fiscal year ended December 31, 2020, and the fiscal year ended December 31, 2023, are not provided since operating cash flow was a minus figure.

(4) Outlook for the fiscal year ending December 31, 2024

For the next fiscal year (the fiscal year ending December 31, 2024), the Company expects to receive steady royalty income from tegoprazan—a gastro-esophageal reflux disease treatment, GALLIPRANT®—a drug for osteoarthritis in dogs, ENTYCE®—a treatment for anorexia in dogs, and ELURA®—a drug for weight loss management in cats. The Company also expects to earn upfront payments associated with concluding new licensing agreements and milestone income associated with development progress.

In research and development activities, the Company will strive to enhance corporate value by making progress in research- and development-stage projects and by strengthening its drug discovery research infrastructure through collaboration with startups, drug discovery ventures, academia, and other partners.

Moreover, the Company announced today the conversion of FIMECS, Inc. to a subsidiary through a share acquisition, and it will become a consolidated subsidiary from March 31, 2024. Accordingly, its financial results will be reflected in the Company's consolidated financial results from the second quarter of the fiscal year ending December 31, 2024.

As for the outlook of consolidated financial results for the fiscal year ending December 31, 2024, the Group forecasts business revenue of 4,535 million yen, operating profit of 313 million yen, ordinary profit of 290 million yen and profit attributable to owners of parent of 236 million yen.

The forecast figures presented above are based on the information currently available to the Group 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. In the case where the Group acknowledges the need to revise the financial forecasts, it will disclose such information promptly.

2. Basic rationale for selecting the accounting standard

The Group has adopted Japanese accounting standards to ease the cost, etc., of parallel disclosure of reporting under both Japanese accounting standards and international financial reporting standards (IFRS).

The Group does not have plans to adopt IFRS as of the end of the fiscal year under review; however, its policy is to respond appropriately to the situation in Japan and overseas with regard to adoption trends by other companies in the industry.

3. Consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2022	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	3,675,450	3,714,984
Accounts receivable - trade, and contract assets	602,311	603,196
Securities	250,599	49,754
Work in process	978	1,713
Supplies	7,522	146,226
Advance payments to suppliers	89,820	66,600
Prepaid expenses	108,633	188,128
Other	86,777	186,290
Total current assets	4,822,094	4,956,894
Non-current assets		
Property, plant and equipment		
Buildings	154,158	157,866
Tools, furniture and fixtures	963,622	1,124,544
Leased assets	254,926	397,738
Accumulated depreciation	(981,683)	(1,106,541)
Total property, plant and equipment	391,024	573,608
Intangible assets		
Trademark right	4,268	4,544
Software	19,984	25,570
Other	72	72
Total intangible assets	24,325	30,187
Investments and other assets		
Investment securities	987,962	1,231,458
Long-term prepaid expenses	24,073	63,501
Deferred tax assets	–	5,711
Other	8,172	10,610
Total investments and other assets	1,020,208	1,311,281
Total non-current assets	1,435,559	1,915,077
Total assets	6,257,653	6,871,972

(Thousands of yen)

	As of December 31, 2022	As of December 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	128,066	54,174
Current portion of long-term borrowings	2,620	12,620
Lease liabilities	42,887	64,301
Accounts payable - other	206,209	158,888
Accrued expenses	60,479	54,197
Income taxes payable	30,957	19,687
Deposits received	18,922	3,502
Other	3,635	21,941
Total current liabilities	493,778	389,313
Non-current liabilities		
Long-term borrowings	9,170	39,050
Lease liabilities	167,661	251,747
Asset retirement obligations	12,222	12,320
Provision for share awards	60,590	48,222
Provision for share awards for directors (and other officers)	14,498	10,875
Deferred tax liabilities	2,750	–
Total non-current liabilities	266,893	362,215
Total liabilities	760,671	751,528
Net assets		
Shareholders' equity		
Share capital	2,265,697	2,667,649
Capital surplus	2,455,480	2,857,432
Retained earnings	773,021	449,358
Treasury shares	(21)	(22)
Total shareholders' equity	5,494,178	5,974,418
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(5,569)	120,415
Total accumulated other comprehensive income	(5,569)	120,415
Share acquisition rights	8,372	25,610
Total net assets	5,496,981	6,120,443
Total liabilities and net assets	6,257,653	6,871,972

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

Consolidated statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Business revenue	2,918,038	1,901,202
Business expenses		
Cost of business revenue	231,586	245,053
Research and development expenses	1,248,678	1,372,560
Other selling, general and administrative expenses	571,538	620,954
Total business expenses	2,051,803	2,238,568
Operating profit (loss)	866,235	(337,366)
Non-operating income		
Interest income	529	3,426
Interest on securities	13,127	6,272
Foreign exchange gains	43,697	52,038
Gain on valuation of derivatives	13,672	–
Gain on valuation of compound financial instruments	–	3,390
Subsidy income	–	2,600
Other	5,622	20,531
Total non-operating income	76,649	88,257
Non-operating expenses		
Interest expenses	5,995	6,681
Commitment fees	5,833	8,522
Share issuance costs	15,897	4,005
Loss on valuation of derivatives	–	25,055
Loss on valuation of compound financial instruments	10,820	–
Other	–	26
Total non-operating expenses	38,545	44,291
Ordinary profit (loss)	904,338	(293,400)
Extraordinary income		
Gain on sale of investment securities	10,268	–
Gain on redemption of investment securities	4,203	–
Total extraordinary income	14,472	–
Extraordinary losses		
Loss on redemption of investment securities	–	649
Loss on valuation of investment securities	49,999	–
Retirement benefits for directors (and other officers)	17,800	–
Total extraordinary losses	67,799	649
Profit (loss) before income taxes	851,011	(294,049)
Income taxes - current	129,034	93,627
Income taxes - deferred	(1,413)	(64,014)
Total income taxes	127,620	29,612
Profit (loss)	723,390	(323,662)
Profit attributable to non-controlling interests	–	–
Profit (loss) attributable to owners of parent	723,390	(323,662)

Consolidated statement of comprehensive income

(Thousands of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit (loss)	723,390	(323,662)
Other comprehensive income		
Valuation difference on available-for-sale securities	(29,489)	125,984
Total other comprehensive income	(29,489)	125,984
Comprehensive income	693,901	(197,678)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	693,901	(197,678)
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statement of changes in equity

Fiscal year ended December 31, 2022

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,256,920	2,446,703	49,631	(21)	4,753,234
Changes during period					
Issuance of new shares	8,776	8,776			17,553
Profit attributable to owners of parent			723,390		723,390
Net changes in items other than shareholders' equity					–
Total changes during period	8,776	8,776	723,390	–	740,944
Balance at end of period	2,265,697	2,455,480	773,021	(21)	5,494,178

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	23,919	23,919	10,850	4,788,004
Changes during period				
Issuance of new shares		–		17,553
Profit attributable to owners of parent		–		723,390
Net changes in items other than shareholders' equity	(29,489)	(29,489)	(2,477)	(31,966)
Total changes during period	(29,489)	(29,489)	(2,477)	708,977
Balance at end of period	(5,569)	(5,569)	8,372	5,496,981

Fiscal year ended December 31, 2023

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,265,697	2,455,480	773,021	(21)	5,494,178
Changes during period					
Issuance of new shares	401,951	401,951			803,903
Loss attributable to owners of parent			(323,662)		(323,662)
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	401,951	401,951	(323,662)	(0)	480,239
Balance at end of period	2,667,649	2,857,432	449,358	(22)	5,974,418

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	(5,569)	(5,569)	8,372	5,496,981
Changes during period				
Issuance of new shares				803,903
Loss attributable to owners of parent				(323,662)
Purchase of treasury shares				(0)
Net changes in items other than shareholders' equity	125,984	125,984	17,237	143,221
Total changes during period	125,984	125,984	17,237	623,461
Balance at end of period	120,415	120,415	25,610	6,120,443

(4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Cash flows from operating activities		
Profit (loss) before income taxes	851,011	(294,049)
Depreciation	147,731	175,564
Interest income	(529)	(3,426)
Interest income on securities	(13,127)	(6,272)
Interest expenses	5,995	6,681
Commitment fees	5,833	8,522
Foreign exchange losses (gains)	(30,934)	(45,955)
Loss (gain) on sale of investment securities	(10,268)	–
Loss (gain) on redemption of investment securities	(4,203)	649
Loss (gain) on valuation of investment securities	49,999	–
Loss (gain) on valuation of derivatives	(13,672)	25,055
Loss (gain) on valuation of compound financial instruments	10,820	(3,390)
Share issuance costs	15,897	4,005
Subsidy income	–	(2,600)
Retirement benefits for directors (and other officers)	17,800	–
Decrease (increase) in trade receivables	603,089	(884)
Decrease (increase) in inventories	2,047	(139,439)
Increase (decrease) in trade payables	82,070	(73,892)
Decrease (increase) in advance payments to suppliers	(73,881)	23,219
Decrease (increase) in prepaid expenses	(6,524)	(65,112)
Decrease (increase) in long-term prepaid expenses	–	(31,544)
Decrease (increase) in consumption taxes refund receivable	(24,032)	(91,441)
Increase (decrease) in accrued consumption taxes	(37,475)	–
Increase (decrease) in accounts payable - other	75,933	(45,600)
Increase (decrease) in accrued expenses	(2,524)	(6,282)
Increase (decrease) in income taxes payable - factor based tax	(6,788)	(9,339)
Increase (decrease) in deposits received	(9,961)	(15,419)
Increase (decrease) in provision for share awards	60,590	(12,368)
Increase (decrease) in provision for share awards for directors (and other officers)	14,498	(3,623)
Other, net	(33,096)	11,414
Subtotal	1,676,296	(595,528)
Interest and dividends received	18,128	10,110
Interest paid	(6,018)	(6,760)
Commitment fees paid	(7,000)	(19,212)
Income taxes paid	(183,521)	(121,631)
Income taxes refund	–	11,826
Subsidies received	–	2,600
Payments of retirement benefits for directors (and other officers)	(17,800)	–
Net cash provided by (used in) operating activities	1,480,084	(718,596)

(Thousands of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Cash flows from investing activities		
Payments into time deposits	(200,000)	(100,000)
Proceeds from withdrawal of time deposits	310,130	–
Purchase of securities	(100,000)	–
Proceeds from redemption of securities	100,000	100,000
Purchase of property, plant and equipment	(31,132)	(204,475)
Purchase of intangible assets	(773)	(17,730)
Purchase of investment securities	(651,634)	(160,000)
Proceeds from sale of investment securities	315,249	–
Proceeds from redemption of investment securities	210,512	250,000
Other, net	–	(3,168)
Net cash provided by (used in) investing activities	(47,649)	(135,373)
Cash flows from financing activities		
Proceeds from long-term borrowings	13,100	50,000
Repayments of long-term borrowings	(1,310)	(10,120)
Proceeds from issuance of shares	–	782,614
Proceeds from issuance of shares resulting from exercise of share acquisition rights	4,033	3,952
Proceeds from issuance of share acquisition rights	–	19,362
Purchase of treasury shares	–	(0)
Repayments of lease liabilities	(45,387)	(52,357)
Net cash provided by (used in) financing activities	(29,563)	793,450
Effect of exchange rate change on cash and cash equivalents	35,771	45,953
Net increase (decrease) in cash and cash equivalents	1,438,643	(14,565)
Cash and cash equivalents at beginning of period	2,240,661	3,679,304
Cash and cash equivalents at end of period	3,679,304	3,664,738

(5) Notes to consolidated financial statements

Notes on premise of going concern

No items to report.

Notes on significant changes in the amount of shareholders' equity

On January 5, 2023, the Company received payment for capital increase through third-party allotment from CVI Investments, Inc. As a result, share capital and capital surplus each increased 393,125 thousand yen. Moreover, including increases due to the issuance of share acquisition rights (stock options) and the issuance of new shares as restricted stock-based compensation for directors, share capital and capital surplus each increased 401,951 thousand yen during the fiscal year under review, resulting in share capital of 2,667,649 thousand yen and capital surplus of 2,857,432 thousand yen as of the end of the fiscal year under review.

Changes in accounting policies

(Application of implementation guidance on accounting standard for fair value measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the fiscal year under review, and it has applied the new accounting policy provided for by the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional measures provided for in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement.

Note that there was no effect of the application of the Implementation Guidance on Accounting Standard for Fair Value Measurement on the consolidated financial statements.

Additional information

(Application of practical solution on the accounting and disclosure under the group tax sharing system) The Company and its consolidated subsidiaries have transitioned from the consolidated taxation system to the group tax sharing system from the fiscal year under review. Accordingly, the treatment of accounting and disclosure for corporation tax, regional corporation tax, and tax effect accounting is in accordance with the "Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System" (PITF No. 42, issued on August 12, 2021; hereinafter "PITF No. 42"). In addition, the change in accounting policy with the application of PITF No. 42 in accordance with paragraph 32(1) of PITF No. 42 is considered to have no impact.

(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. Fiscal year ended December 31, 2022

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

II. Fiscal year ended December 31, 2023

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

Per share information

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Net assets per share (Yen)	261.65	281.87
Basic earnings (loss) per share	34.50	(14.98)
Diluted earnings per share	34.47	–

Notes: 1. Diluted earnings per share of fiscal year ended December 31, 2023 are not described here because, although there are potentially dilutive shares, basic loss per share was recorded.
2. The basis for calculation of net assets per share is as follows:

	As of December 31, 2022	As of December 31, 2023
Total net assets (Thousands of yen)	5,496,981	6,120,443
Amount to be deducted from total net assets (Thousands of yen)	8,372	25,610
[Share acquisition rights included therein] (Thousands of yen)	[8,372]	[25,610]
Amount of net assets at the end of period related to common shares (Thousands of yen)	5,488,609	6,094,833
Number of common shares at the end of period used in calculation of net assets per share (Shares)	20,977,131	21,623,230

3. The basis for calculation of basic earnings (loss) per share and diluted earnings per share is as follows:

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Basic earnings (loss) per share		
Amount of profit (loss) attributable to owners of parent (Thousands of yen)	723,390	(323,662)
Amount not attributable to common shareholders (Thousands of yen)	–	–
Amount of profit (loss) attributable to owners of parent related to common shares (Thousands of yen)	723,390	(323,662)
Average number of outstanding common shares during the period (Shares)	20,969,376	21,606,239
Diluted earnings per share		
Adjustment on profit attributable to owners of parent (Thousands of yen)	–	–
Increase in number of common shares (Shares)	13,764	8,612
[Share acquisition rights included therein (Shares)]	–	–
Summary of potential shares that are not included in calculation of diluted earnings per share due to a lack of dilution effect	―――	―――

Significant subsequent event

Business combination through acquisition

・FIMECS, Inc.

The Board of Directors of the Company, at its meeting held on February 14, 2024, resolved to acquire all shares of FIMECS, Inc. (“FIMECS”) and entered into a share transfer agreement on February 14, 2024.

1. Overview of Business Combination

(1) Name of acquired company and its business

Name of acquired company FIMECS, Inc.

Description of business Research and development of novel drugs with proteolysis-inducing mechanisms

(2) Main reasons for the business combination

The Company is an R&D-oriented drug discovery venture company that aims to create new pharmaceuticals for highly needed disease areas in the medical field by utilizing cutting-edge science and technology, and its business development is based on licensing the intellectual property rights (licensing out under a license agreement) of originally developed compounds to pharmaceutical companies and other parties.

FIMECS, on the other hand, is a startup company founded in 2018 that aims to create innovative pharmaceuticals for diseases that have traditionally been considered extremely difficult (Undruggable) to discover treatments for by using targeted proteolysis inducers, a new modality of drug discovery.

The Company acquired the shares because the acquisition of all shares of FIMECS is expected to make significant progress in strengthening the next-generation in-house drug discovery value chain by strengthening the drug discovery value chain, enable the acquisition of joint research partners in Japan and overseas from the initial stages of research centered on FIMECS’s proprietary platform technologies, and strengthen the drug discovery pipeline for oncology.

(3) Date of business combination

March 26, 2024

(4) Legal form of business combination
Share acquisition

(5) Name of company after combination
Names remain unchanged.

(6) Percentage of voting rights acquired
100%

(7) The main grounds for determining the acquisition of the company
The Company acquires shares for cash consideration.

2. Breakdown by type of consideration

Consideration for acquisition	Cash and deposits	4,500,000 thousand yen
Acquisition cost		4,500,000 thousand yen

In addition to the acquisition price, the Company also agreed on conditions for payment based on future earnings of the acquired subsidiary (hereinafter "earn out consideration"). Earn out consideration refers to payment to the seller of amounts calculated by a predetermined method based on contract lump-sum revenue, milestone revenue, royalty revenue, and consignment-related revenue arising from contracts, etc. between FIMECS and other parties. The introduction of earn out consideration can mitigate the risk of the acquisition to the Company.

3. Description and amount of major acquisition-related expenses
Compensation, fees, etc. for advisory 17,000 thousand yen (approximate amount)

4. Amount of goodwill to be accrued, reason for accrual, amortization method and amortization period
Not determined at this point.

5. Amount of assets and liabilities to be accepted on the date of business combination and their major breakdown
Not determined at this point.