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November 13, 2020

## Summary of Consolidated Financial Results for the First Nine 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:** November 13, 2020  
**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 nine months of the fiscal year ending December 31, 2020 (January 1, 2020 to September 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 nine months ended September 30, 2020	573	(19.0)	(600)	—	(615)	—	(698)	—
September 30, 2019	708	32.9	(534)	—	(527)	—	(531)	—

Note: Comprehensive income  
 Nine months ended September 30, 2020: (703) million yen [–%]  
 Nine months ended September 30, 2019: (499) million yen [–%]

	Earnings per share (Basic)	Earnings per share (Diluted)
First nine months ended September 30, 2020	yen (33.35)	yen —
September 30, 2019	(25.94)	—

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	million yen	million yen	%
September 30, 2020	4,130	3,917	94.6
December 31, 2019	4,836	4,620	95.3

Reference: Equity As of September 30, 2020: 3,905 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
	yen	yen	yen	yen	yen
Fiscal year ended December 31, 2019	—	0.00	—	0.00	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)

	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, 2020	1,579	(7.2)	(260)	–	(256)	–	(333)	–	(15.93)

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

\* 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 nine months ended September 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 September 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 September 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 nine months ended September 30, 2020	20,950,500 shares
For the first nine months ended September 30, 2019	20,504,524 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.

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

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

#### 1) Financial results

During the first nine months ended September 30, 2020, the economy remains in a difficult situation due to the impact of the spread of the novel coronavirus disease (“COVID-19”), the subsequent declaration of a “state of emergency” by the government, and other factors. Concerns are rising regarding the recovery of the global economy being delayed due to another spread of COVID-19, primarily in Europe. Under such conditions, the Group achieved the following financial results during the first nine months.

With regard to pet drug products, in the third quarter ended September 30, 2020, sales of GALLIPRANT<sup>®</sup> (generic name: grapiprant)—a drug for osteoarthritis in dogs—steadily recovered in the U.S., and recorded steady growth in Europe. On the other hand, sales of ENTYCE<sup>®</sup> (generic name: capromorelin)—a treatment for anorexia in dogs—continued to record steady growth.

There has been a slightly negative impact on activities for the licensing of candidate compounds for medicinal drugs and collaborative research as opportunities for face-to-face meetings have decreased due to COVID-19, but business development activities have steadily progressed while utilizing web conferencing. Regarding the development of tegoprazan (generic name: tegoprazan; “tegoprazan”)—a drug for gastro-esophageal reflux disease—licensee HK inno.N Corporation (South Korea, “HK inno.N (South Korea)”) has progressed with preparations to commence Phase I clinical trials in the U.S., and Shandong Luoxin Pharmaceutical Group Co., Ltd. (China) is preparing to file an application for new drug approval in China. Furthermore, negotiations for development in Japan is underway between the Company and HK inno.N (South Korea).

Regarding industry-academia collaboration, the Group started collaborative research for new treatments for COVID-19 with Nagasaki University in September 2020.

Accordingly, financial results for the first nine months, the reporting period, were as follows. Business revenue for the period was 573 million yen (down 19.0% year on year), operating loss totaled 600 million yen (compared with operating loss of 534 million yen a year earlier), ordinary loss totaled 615 million yen (compared with ordinary loss of 527 million yen a year earlier), and loss attributable to owners of parent was 698 million yen (compared with loss attributable to owners of parent of 531 million yen a year earlier). Total business expenses were 1,174 million yen (down 5.5% year on year). This total mainly consists of cost of business revenue (97 million yen, a 41.2% decrease from the same period of the previous fiscal year), research and development expenses (675 million yen, a 5.7% increase from the same period of the previous fiscal year) and other selling, general and administrative expenses (402 million yen, an 8.2% 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 nine months were 675 million yen. The main components of these activities were as follows:

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

###### Exploratory and discovery phase

The Company has started joint drug discovery research with Professor Jiro Yasuda and Assistant Professor Yasuteru Sakurai in National Research Center for the Control and Prevention of Infectious Diseases / Institute of Tropical Medicine of Nagasaki University to discover a new therapeutic for COVID-19.

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

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

###### tegoprazan (registered trademark in South Korea: K-CAB<sup>®</sup>, 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 nine 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 September 30, 2020 were 4,130 million yen, a decrease of 706 million yen (down 14.6%) from the end of the previous fiscal year. This is mainly attributable to a decrease in cash and deposits of 498 million yen, a decrease in accounts receivable - trade of 615 million yen, an increase in securities of 708 million yen, and a decrease in investment securities of 438 million yen.

#### Liabilities

Total liabilities as of September 30, 2020 were 212 million yen, a decrease of 3 million yen (down 1.5%) from the end of the previous fiscal year. This is mainly attributable to an increase in accounts payable - trade of 5 million yen, a decrease in advances received of 6 million yen, and a decrease in deferred tax liabilities of 4 million yen.

#### Net assets

Total net assets as of September 30, 2020 were 3,917 million yen, a decrease of 703 million yen (down 15.2%) from the end of the previous fiscal year. This is mainly attributable to the recording of loss attributable to owners of parent of 698 million yen.

Consequently, the equity ratio was 94.6% (down 0.7 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 September 30, 2020 amounted to 2,310 million yen (compared with 1,859 million yen a year earlier), an increase of 109 million yen (up 5.0%) from the end of the previous fiscal year.

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

#### Cash flows from operating activities

Net cash used in operating activities was 95 million yen, a decrease of 449 million yen (down 82.5% year on year). This is mainly attributable to the recording of loss before income taxes of 612 million yen and depreciation of 86 million yen, and a cash inflow from a decrease in trade receivables of 615 million yen.

#### Cash flows from investing activities

Net cash provided by investing activities was 246 million yen, an increase of 20 million yen (up 9.1% year on year). This is mainly attributable to the proceeds from sales of investment securities of 387 million yen, purchase of property, plant and equipment of 84 million yen, and purchase of investment securities of 106 million yen.

#### Cash flows from financing activities

Net cash used in financing activities was 0 million yen (compared with net cash of 375 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

Sales activities have been hindered due to the global spread of COVID-19, suppression of medical examinations for patients in the pharmaceutical industry and refraining from visiting customers. Regarding the impact on the Group, business development activities have been severely hindered due to refraining from taking domestic business trips, international travel being virtually prohibited and other factors.

Depending on the progression of COVID-19 going forward, it is possible that licensing negotiations for products developed with pharmaceutical companies and negotiations for collaborative research will be affected due to continuing restrictions on movement within Japan and internationally. Furthermore, at partner companies, there is also a possibility of the extension of clinical trials and changing of plans as well as the stagnation of sales promotion activities for drug products. As a result of this, it is possible that the Group’s operating results will be affected.

At the present time, there are no changes to the figures in “Notice Concerning Revision to Full-Year FY12/20 Consolidated Earnings Forecast” announced on August 14, 2020. If that any significant impacts are expected going forward due to another wave of COVID-19, restrictions on domestic and international travel or other factors, the Company will promptly disclose them.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2019	As of September 30, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	2,174,200	1,676,143
Accounts receivable - trade	747,267	131,857
Securities	26,006	734,139
Supplies	5,500	4,540
Advance payments - trade	5,952	23,650
Prepaid expenses	69,231	123,038
Other	38,988	70,965
Total current assets	3,067,147	2,764,335
Non-current assets		
Property, plant and equipment		
Buildings, net	77,528	73,634
Tools, furniture and fixtures, net	169,179	212,281
Leased assets, net	2,173	1,658
Total property, plant and equipment	248,881	287,574
Intangible assets		
Trademark right	5,129	5,324
Software	26,805	24,938
Other	550	1,145
Total intangible assets	32,485	31,409
Investments and other assets		
Investment securities	1,474,270	1,035,691
Long-term prepaid expenses	2,199	558
Other	11,576	10,690
Total investments and other assets	1,488,047	1,046,940
Total non-current assets	1,769,413	1,365,924
Total assets	4,836,561	4,130,259

(Thousands of yen)

	As of December 31, 2019	As of September 30, 2020
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	34,297	40,248
Lease obligations	741	741
Accounts payable - other	67,183	71,616
Accrued expenses	50,423	49,566
Income taxes payable	20,235	16,509
Advances received	6,875	–
Deposits received	3,318	5,783
Total current liabilities	183,074	184,465
Non-current liabilities		
Lease obligations	1,667	1,111
Asset retirement obligations	11,934	12,007
Deferred tax liabilities	19,236	15,092
Total non-current liabilities	32,839	28,211
Total liabilities	215,914	212,677
<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)	(797,824)
Treasury shares	(21)	(21)
Total shareholders' equity	4,600,476	3,902,128
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,906	3,306
Total accumulated other comprehensive income	7,906	3,306
Share acquisition rights	12,265	12,147
Total net assets	4,620,647	3,917,582
Total liabilities and net assets	4,836,561	4,130,259

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

(Thousands of yen)

	First nine months ended September 30, 2019	First nine months ended September 30, 2020
Business revenue	708,168	573,550
Business expenses		
Cost of business revenue	165,415	97,312
Research and development expenses	638,883	675,005
Other selling, general and administrative expenses	437,907	402,002
Total business expenses	1,242,206	1,174,320
Operating loss	(534,037)	(600,770)
Non-operating income		
Interest income	6,957	3,428
Interest on securities	26,464	23,092
Gain on valuation of compound financial instruments	6,080	2,250
Subsidy income	–	1,500
Other	629	522
Total non-operating income	40,131	30,793
Non-operating expenses		
Foreign exchange losses	23,583	45,201
Share issuance cost	10,460	78
Other	1	0
Total non-operating expenses	34,045	45,279
Ordinary loss	(527,951)	(615,256)
Extraordinary income		
Gain on sales of non-current assets	–	750
Gain on sales of investment securities	5,728	8,430
Total extraordinary income	5,728	9,180
Extraordinary losses		
Loss on sales of investment securities	–	348
Loss on redemption of investment securities	–	5,778
Total extraordinary losses	–	6,127
Loss before income taxes	(522,223)	(612,203)
Income taxes - current	9,828	86,627
Income taxes - deferred	(216)	(177)
Total income taxes	9,612	86,449
Loss	(531,836)	(698,652)
Profit attributable to non-controlling interests	–	–
Loss attributable to owners of parent	(531,836)	(698,652)

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

(Thousands of yen)

	First nine months ended September 30, 2019	First nine months ended September 30, 2020
Loss	(531,836)	(698,652)
Other comprehensive income		
Valuation difference on available-for-sale securities	31,960	(4,599)
Total other comprehensive income	31,960	(4,599)
Comprehensive income	(499,875)	(703,252)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(499,875)	(703,252)
Comprehensive income attributable to non-controlling interests	–	–



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

(Thousands of yen)

	First nine months ended September 30, 2019	First nine months ended September 30, 2020
<b>Cash flows from operating activities</b>		
Loss before income taxes	(522,223)	(612,203)
Depreciation	101,937	86,405
Interest income	(6,957)	(3,428)
Interest income on securities	(26,464)	(23,092)
Foreign exchange losses (gains)	27,345	40,648
Subsidy income	–	(1,500)
Loss (gain) on valuation of compound financial instruments	(6,080)	(2,250)
Share issuance cost	10,460	78
Loss (gain) on sales of non-current assets	–	(750)
Loss (gain) on sales of investment securities	(5,728)	(8,081)
Loss (gain) on redemption of investment securities	–	5,778
Decrease (increase) in trade receivables	(59,326)	615,409
Decrease (increase) in inventories	(9,530)	959
Increase (decrease) in trade payables	3,402	5,950
Decrease (increase) in advance payments - trade	445	(17,698)
Decrease (increase) in prepaid expenses	(60,881)	(53,806)
Increase (decrease) in accounts payable - other	(38,385)	(30,030)
Decrease (increase) in consumption taxes refund receivable	(3,029)	(31,850)
Other, net	31,900	(7,598)
Subtotal	(563,116)	(37,058)
Interest and dividends received	34,412	30,321
Subsidies received	–	1,500
Income taxes paid	(15,630)	(90,013)
Net cash provided by (used in) operating activities	(544,334)	(95,249)
<b>Cash flows from investing activities</b>		
Proceeds from withdrawal of time deposits	10,000	–
Purchase of property, plant and equipment	(62,947)	(84,387)
Proceeds from sales of property, plant and equipment	–	750
Purchase of intangible assets	(21,813)	(4,115)
Purchase of investment securities	–	(106,933)
Proceeds from sales of investment securities	301,440	387,515
Proceeds from redemption of investment securities	–	53,775
Other, net	(433)	185
Net cash provided by (used in) investing activities	226,245	246,788
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares resulting from exercise of share acquisition rights	371,162	110
Proceeds from issuance of share acquisition rights	4,412	–
Repayments of lease obligations	(555)	(555)
Net cash provided by (used in) financing activities	375,018	(445)
Effect of exchange rate change on cash and cash equivalents	(27,305)	(41,248)
Net increase (decrease) in cash and cash equivalents	29,624	109,844
Cash and cash equivalents at beginning of period	1,829,540	2,200,206
Cash and cash equivalents at end of period	1,859,165	2,310,051

**(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 nine months ended September 30, 2019 (January 1, 2019 to September 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 nine months ended September 30, 2020 (January 1, 2020 to September 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.