PRESS RELEASE

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Notice of Issuance of the 15th Series Share Options with Exercise Price Amendment Clause by Allotment to Third Party, and Commitment Contract

March 8, 2019 – RaQualia Pharma Inc. (JASDAQ Code: 4579; hereinafter referred to as the "Company") today announced that it held a meeting of its board of directors today and resolved that the 15th series share options with exercise price amendment clause by allotment to third party (hereinafter referred to as the "share options") would be issued and a commitment contract would be concluded after the filing of a notification under the Financial Instruments and Exchange Act becomes effective.

1. Outline of offering

(1)	Date of allotment	March 25, 2019
(2)	Number of share options	530 share options
(3)	Paid-in amount	25,000 yen per share option (Total amount to be paid in for share options: 13,250,000 yen)
(4)	Number of dilutive shares resulting from the issuance	Number of dilutive shares: 530,000 shares (1,000 shares per share option) The number of dilutive shares is 530,000 shares even in the case of the lower limit exercise price (see (6) below).
(5)	Amount of funds raised (Estimated amount of net proceeds)	1,048,600,000 yen (Note)
(6)	Exercise price and amendment conditions of exercise price	Initial exercise price: 1,995 yen The upper limit exercise price is not set. The lower limit exercise price is 1,197 yen (hereinafter referred to as the "lower limit exercise price"). The exercise price is modified on the day on which each demand to exercise the share options becomes effective (hereinafter referred to as the "modification date"), to the amount equivalent to 91% of the closing price of the ordinary trading of our common share (calculated to the second decimal place, and rounded up to the first decimal place) on Tokyo Stock Exchange, Inc. (hereinafter referred to as the "Tokyo Stock Exchange") on the trading day immediately preceding the modification date (if no closing price is available on that day, the immediately preceding trading day on which the closing price is available applies; hereinafter referred to as the "calculation base date"). However, when such modified amount falls below the lower limit exercise price, the lower limit exercise price is deemed to be the exercise price after the modification.
(7)	Offer or allotment	The share options are issued by allotment to third party.
(8)	Expected allottee	Daiwa Securities Co. Ltd.

(9) Others	The Company plans to conclude a contract to purchase the share options (hereinafter referred to as "Share Option Purchase Contract") and a commitment contract with an expected allottee, Daiwa Securities Co. Ltd., (hereinafter referred to as "Daiwa Securities") after the filing of a notification under the Financial Instruments and Exchange Act becomes effective. The commitment contract stipulates the following contents. Details are described in "3. Outline of and reason for selection of way of raising funds (1) Outline of way of raising funds" and "3. Outline of and reason for selection of way of raising funds (2) Reason for selection of way of raising funds." ・Request by the Company that the share options be exercised; ・Request by the Company that the exercise of the share options be suspended; and ・Request by Daiwa Securities to acquire the share options. The Share Option Purchase Contract and the commitment contract will also stipulate that Daiwa Securities may not transfer the share options to any third parties other than the Company without advance approval of the Company's Board of Directors and that if Daiwa Securities wishes to transfer the share options, it must make any transferee promise in advance to comply with the transfer restrictions and commitment contract details agreed upon by the Company. In addition, these contracts will stipulate that if the said transferee wishes to transfer the share options to another third party, the same process applies. Furthermore, after the shares are issued through the exercise of the share options, there is no preventing the expected allottee from transferring them to third parties.

2. Purpose of and reason for offering

The Company considered various ways of raising funds in order to raise the funds described in [Purpose of raising funds] below. Among the advantages and disadvantages of various ways of raising funds such as a capital increase through public offering and MSCBs, the Company has determined that the issuance of the stock options that we have been discussing with our expected allottee Daiwa Securities (hereinafter referred to as "this raising of funds") will enable the Company to control the amount and timing of exercising share options to a considerable extent. On the occasion of this raising of funds, the Company has considered it necessary to have flexible ways of raising funds enabling us to quickly respond to our future funding needs, and also have ways of raising funds giving due consideration to the interest of existing shareholders. As a result, the Company has decided to issue the share options at this time.

[Purpose of raising funds]

The Company's business model is based on obtaining upfront payment income through the continuous creation of lead compounds and development compounds through Research Drive (exploratory research activities) and achievement of licensing-out of the development compounds possessed by the Company (licensing-out based on licensing agreements), reliable milestone income after licensing-out, and stable royalty income on sales in conjunction with sales launch. Drug development involves considerable expense and time, and it is necessary to maintain research and development costs, which include exploratory research and preclinical studies, at a high level aimed at creating lead compounds and development compounds in order to continuously enhance shareholder value.

In this situation, the Company formulated and published Gaia 2021, a new Mid-Term Business Plan through to the fiscal year ending December 31, 2021 (hereinafter referred to as "Gaia 2021") on February 8, 2019 and considers it necessary to further strengthen its research and development system aiming for continuous creation of lead compounds and development compounds in order to achieve Gaia 2021. Under Gaia 2021, the Company has also determined a funding strategy to maintain a stable financial base over the long term while supporting the plan. Specifically, the basic policy is to "maintain a certain cash balance each fiscal year" and to "reduce business expenses in principle, and consider raising funds in the market to supplement the shortfalls in funds for research and development costs and clinical study costs in order to achieve business strategy." In light of this, the Company plans for total business expenses of 4,800 million yen over the three years through to the fiscal year ending December 31, 2021 for Gaia 2021. With respect to the fiscal year ending December 31, 2019, the first year of the Mid-Term Business Plan, the Company expects it will need to raise funds of approximately 900 million yen for research and development cost relating to “discovery research” and “preclinical studies,” mainly taking into account the fact that although the Company initially forecasted net sales for the fiscal year ended December 31, 2018, of 1,388 million yen (announced on February 9, 2018), the actual net sales fell 644 million yen short of this because not only did the Company not receive an agreement-based upfront payment due to the termination of an agreement for the establishment of the joint venture in China, but also the milestone revenue expected to be generated through its pipelines has now been put delayed until subsequent fiscal periods. In addition, as an initiative to support Gaia 2021, the Company considers that promoting the exploratory activities for “drug candidates” and “business seeds” carried out through RaQualia Innovations will contribute to enhancing the business value of the Group going forward, and it plans to allocate about 200 million yen to such activities through to the fiscal year ending December 31, 2020.

The funds needed to be raised for such research and development costs and to promote exploratory activities by RaQualia Innovations will be appropriated from about 52 million yen in cash on hand and from funding through financial markets. The raised funds are to be used for (i) research and development cost to continuously create lead compounds and development compounds in the exploratory research phase, (ii) research and development cost incurred in and after the preclinical study phase, and (iii) investment funds for the discovery of drug seeds by RaQualia Innovations, which will contribute to enhancing the business value of the Group going forward. Through this raising of funds, we will promote research and development centered on ion channel drug discovery in the fields of gastrointestinal diseases and pain treatments, continuously create attractive new development programs, and aim to enhance shareholder value over the medium to long term. We will also strive to realize our corporation vision, “We seek to bring people health and happiness through innovative new medications.”

3. Outline of and reason for selection of way of raising funds

(1) Outline of way of raising funds

This raising of funds has a structure in which the Company allots to Daiwa Securities the share options with exercise price amendment clause that can be exercised for two years by way of allotment to third party and our capital increases in association with the exercise of share options by Daiwa Securities. In addition, the Company may acquire all the share options on its own judgment by paying the amount of money equivalent to the amount to be paid in for the share options.

The Company plans to conclude a Share Option Purchase Contract and a commitment contract with Daiwa Securities after the filing of a notification under the Financial Instruments and Exchange Act becomes effective.

(2) Reason for selection of way of raising funds

The Company has received proposals of raising funds of a capital nature from multiple securities firms, including our expected allottee Daiwa Securities, and of debt financing such as loans from financial institutions. As a result of considering various ways of raising funds including the said proposals in a comprehensive manner, the Company has determined that the way of raising funds by this raising of funds proposed by Daiwa Securities will be the best choice at present, in which our capital needs can be met while giving due consideration to the interest of existing shareholders as the amount and timing of exercising share options can be controlled to a considerable extent by notifying exercise requests and exercise suspension requests based on the resolution of the Company’s board of directors, thereby making it possible to raise funds in a flexible manner according to the funding needs as well as facilitating the modification of the exercise price to an amount equivalent to 91% of the closing price of the Company’s common shares on the Tokyo Stock Exchange on the calculation base date and curbing a significant dilution in the share value at one time.

Even in the case that the actual amount raised is less than expected, which is a disadvantage of this raising of funds, the Company believes that the said disadvantage can be tolerated at the present time because of the ability to respond by redistributing the funds raised or by appropriating the Company’s own funds.

4. Amount, uses and estimated timing of expenditure of funds raised

(1) Amount of funds to be raised (estimated amount of net proceeds)

Total amount to be paid in	Estimated amount of issue costs	Estimated amount of net proceeds
1,070,600,000 yen	22,000,000 yen	1,048,600,000 yen

(2) Concrete uses of funds to be raised

The estimated amount of net proceeds including the total amount of the value of property contributed upon exercise of the share options is 1,048,600,000 yen as described in “(1) Amount of funds to be raised (estimated amount of net proceeds)" above.

Concrete uses of funds	Amount (million yen)	Estimated timing of expenditure
(i) Research and development cost to continuously create lead compounds and development compounds in the exploratory research phase	500	April 2019 to December 2019
(ii) Research and development cost incurred in and after the preclinical study phase	348	April 2019 to December 2019
(iii) Investment funds for the discovery of drug seeds by RaQualia Innovations	200	April 2019 to December 2020
Total	1,048	–

5. Consideration of reasonableness of uses of funds

The funds to be raised this time are expected to contribute to future improvement of our revenue and we believe that such uses of funds are reasonable. Therefore, we believe that the funds to be raised this time will contribute to the interests of existing shareholders through medium- and long-term improvement of our corporate value.

6. Reasonableness of issue conditions, etc.

(1) Basis for judging that issue conditions are reasonable

The Company has entrusted PLUTUS CONSULTING Co., Ltd. (representative: Mahito Noguchi; address: 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo; hereinafter referred to as "PLUTUS"), a third-party appraiser, with the valuation of prices of the share options in which the terms and conditions stipulated in the Essential Points of Issuance for the share options, as well as the Share Option Purchase Contract and commitment contract to be concluded with Daiwa Securities (our expected allottee) are taken into account. PLUTUS has, taking into account the terms and conditions stipulated in the Essential Points of Issuance for the share options, as well as the Share Option Purchase Contract and commitment contract to be concluded with Daiwa Securities (our expected allottee), performed the evaluation assuming certain prerequisites (e.g. no acquisition based on a notification from the Company, uniformly diversified exercise conducted by the expected allottee over the assumed payment period pursuant to the capital spending plan, and mandatory exercise of rights when purchase request rights are exercisable) that focus on various factors as of the evaluation base date (e.g. market environment, the Company's share price, volatility of the Company's shares, dividend yields, liquidity of the Company's shares, the Company's funding needs, rights exercise by the expected allottee, and changes in shares held by the expected allottee), and also using a Monte Carlo simulation (a general price calculation model).

As a result, the value of each share option has been calculated to be 25,000 yen. In reference to this amount, the Company determined the paid-in amount per share option to be 25,000 yen (the same amount as the above valuation amount).

The initial exercise price of the share options is the amount equivalent to the closing price of the ordinary trading of our common share on the trading day (i.e. March 7, 2019) immediately preceding the day of the board of directors' resolution on the issuance. Then due to its modification, the exercise price will be the amount equivalent to 91% of the closing price of the ordinary trading of our common share on the trading day immediately preceding the day on which each demand to exercise the share options becomes effective. However, this price will never be below 1,197 yen, which is the lower limit exercise price of the share options. The lower limit exercise price has been set at the amount equivalent to 60% of the closing price of our common share on the trading day immediately preceding the issuance resolution day, with fractions of less than one yen rounded up, and is never deemed to be a level excessively lower than the prices of our common share during the past six months and the price of our common share on the day immediately preceding the issuance resolution day. Accordingly, the said amount is not particularly considered to be unreasonable. As the paid-in amount for the share options is determined based on such exercise price, the Company believes that such paid-in amount for the share options is appropriate.

The Company's Audit and Supervisory Committee has also determined that the paid-in amount for the share options is not particularly advantageous to our expected allottee and that there are no material facts in violation of laws and regulations due to the fact that it is deemed that PLUTUS is not in an advisory contract relationship with the Company and is independent to a certain extent from the management of the Company, the fact that PLUTUS has conducted its evaluation from a position that is independent from our expected allottee, and the fact that, with regard to the evaluation of the price for the share options, the said evaluation is reasonable in light of the data and materials on which explanations or submissions were received from PLUTUS concerning the calculation process and assumptions in addition to the fact that paid-in amount for the share options is the same amount as the amount of the evaluation that was calculated by PLUTUS.

(2) Basis for judging that the number of share options to be issued and the level of share dilution are reasonable

As a result of raising funds at this time, 20,388,389 shares (the number of outstanding shares as of December 31, 2018) are diluted by a maximum of 2.60% and 203,821 voting rights (the total number of voting rights as of December 31, 2018) are diluted by a maximum of 2.60%. However, as the Company is considering aiming for increased corporate value through future revenue improvement by raising funds as described in "2. Purpose of and reason for offering" above, the raised funds are considered to contribute to share value enhancement for existing shareholders even if the relevant dilution is taken into consideration. As a result, the Company considers that such number of share options to be issued and the level of share dilution are reasonable.

Moreover, (i) the average daily trading volume of the Company's common shares over the past six months is 1,395,294 shares as against the total number of the Company's common shares (530,000 shares) that are the object of the share options, and there is a certain liquidity, (ii) the exercise of the share options can be controlled depending on the Company's funding needs, and (iii) the share options can also be acquired by the Company on its own judgment. As a result, the Company considers that the issuance of the share options is not of a level that will have an excessive impact on the market and that the level of share dilution is reasonable.

7. Reason for selecting the expected allottee

Outline of the expected allottee

(As of September 30, 2018)

(1)	Company name	Daiwa Securities Co. Ltd.
(2)	Head office	9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
(3)	Representative	Seiji Nakata, President (as of March 8, 2019)
(4)	Description of business	Financial instruments business
(5)	Capital stock	100,000,000,000 yen
(6)	Date of establishment	August 21, 1992
(7)	Number of issued shares	810,200 shares
(8)	Fiscal year-end	March 31
(9)	Number of employees	9,304
(10)	Major business partners	Investors and issuers
(11)	Main financing banks	Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited
(12)	Major shareholder and shareholding ratio	Daiwa Securities Group Inc. 100%
(13)	Relationship between companies involved in allotment	
	Capital relationships	Number of the Company's shares owned by expected allottee: 95,900 shares (As of December 31, 2018) Number of the expected allottee's shares owned by the Company: 0 shares (As of December 31, 2018)
	Personal relationships	No items to report.
	Business relationships	The Company's lead underwriter
	Situation applicable to the related parties	No items to report.
(14)	Business results and financial positions for the last three years (non-consolidated) (million yen unless otherwise noted)	

As of and for the fiscal year ended:	March 31, 2016	March 31, 2017	March 31, 2018
Net assets	781,164	839,193	801,022
Total assets	10,524,143	10,285,825	11,683,555
Net assets per share (yen)	964,162.20	1,035,785.78	988,672.20
Operating revenue	369,158	334,911	358,835
Operating profit	114,541	82,414	85,554
Ordinary profit	116,272	85,234	86,664
Profit	80,859	58,461	64,436
Earnings per share (yen)	99,801.97	72,156.28	79,531.48
Dividends per share (yen)	–	124,000	79,531

8. Major shareholders and shareholding ratios

Before offering (As of December 31, 2018)		
Name	Number of shares held (Shares)	Shareholding ratio (%)
Yuichi Kakinuma	1,221,100	5.99
Pfizer Japan Inc.	743,000	3.64
Kazufumi Miyazawa	600,000	2.94
MSIP CLIENT SECURITIES (Standing proxy: Morgan Stanley MUFG Securities Co., Ltd.)	238,513	1.17
SBI SECURITIES Co., Ltd.	207,900	1.02
Matsui Securities Co., Ltd.	203,400	1.00
Hisao Ekimoto	152,600	0.75
Yukio Uemura	143,900	0.71
Takahiro Tanago	110,500	0.54
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	104,359	0.51

(Notes)
1. Major shareholders and shareholding ratios are stated based on the register of shareholders as of December 31, 2018.
2. As Daiwa Securities has not pledged that it will hold the Company’s common shares that it will acquire through the exercise of the share options over the long term, “major shareholders and shareholding ratios after offering” reflecting the number of potential shares involved in the offer of share options is not presented.
3. “Shareholding ratio” is rounded to the third decimal place.

9. Future prospects

The effects of this funding on our business performance for the fiscal year ending December 31, 2019 are immaterial.

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