

Non-consolidated Financial Results for the Nine Months Ended March 31, 2015 [Japanese GAAP]

May 12, 2015

Company name: PeptiDream Inc. Tokyo Stock Exchange
 Stock code: 4587 URL <http://www.peptidream.com/>
 Representative: Kiichi Kubota, Chief Executive Officer
 Inquiries: Yoshiyuki Sekine, Director of Management Administration
 Scheduled filing date of quarterly securities report: May 13, 2015
 Scheduled starting date of dividend payments: —
 Supplementary briefing materials on quarterly financial results: No
 Explanatory meeting on quarterly financial results: No

TEL: +81-3-3485-7707

(Amounts of less than one million yen are rounded down)

1. Financial Results for the Nine Months Ended March 31, 2015 (July 1, 2014 to March 31, 2015)

(1) Operating results (% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine Months Ended March 31, 2015	535	(10.3)	(72)	(154.8)	12	(92.4)	5	(95.0)
Nine Months Ended March 31, 2014	597	23.3	132	(6.1)	159	(5.9)	107	(19.4)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine Months Ended March 31, 2015	0.40	0.34
Nine Months Ended March 31, 2014	8.04	6.72

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2015	6,024	5,913	97.9
As of June 30, 2014	5,999	5,863	97.7

(Reference) Equity As of March 31, 2015: 5,897 million yen
 As of June 30, 2014: 5,860 million yen

2. Payment of Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year ended June 30, 2014	-	0.00	-	0.00	0.00
Fiscal Year ending June 30, 2015	-	0.00			
Fiscal Year ending June 30, 2015 (forecast)			-	0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Financial Forecasts for the Fiscal Year Ending June 30, 2015 (July 1, 2014 to June 30, 2015)

(% indicates changes from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	2,222	171.4	953	373.4	1,033	365.5	652	339.5	47.74

(Note) Revision to the forecast for financial results announced most recently: Yes

[Notes]

(1) Adoption of accounting policies specific to the preparation of quarterly financial statements : None

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatements

1) Changes in accounting policies due to amendment to the accounting standards, etc. : None

2) Changes in accounting policies other than 1) above : None

3) Changes in accounting estimates : None

4) Retrospective restatements : None

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the period
(including treasury stock)

2) Number of treasury stock at the end of the period

3) Average number of shares during the period

As of March 31, 2015	13,803,300 shares	As of June 30, 2014	13,433,300 shares
As of March 31, 2015	- shares	As of June 30, 2014	- shares
Nine months ended March 31, 2015	13,629,650 shares	Nine months ended March 31, 2014	13,382,687 shares

* Presentation regarding the implementation status of the quarterly review procedures

These quarterly financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosure of these quarterly financial results, review procedures for the quarterly financial statements under the Financial Instruments and Exchange Act have not been completed.

*Explanation on the appropriate use of operating forecasts and other special instructions

Financial forecasts and other statements regarding the future presented in these materials are based on information currently available and certain assumptions deemed to be reasonable, and are not meant to be taken as commitment of the Company to achieve such results. Actual performance may differ substantially due to various factors.

Index of Appendix

1. Qualitative Information on Quarterly Financial Results for the Period under Review	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	2
(3) Explanation of Financial Forecasts and Other Forward-looking Information	3
2. Summary Information (Notes).....	4
(1) Adoption of Accounting Policies Specific to the Preparation of Quarterly Financial Statements	4
(2) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatements	4
3. Quarterly Financial Statements.....	5
(1) Quarterly Balance Sheets	5
(2) Quarterly Statements of Income.....	6
(3) Quarterly Statements of Cash Flows	7
(4) Notes to Quarterly Financial Statements	8
(Notes regarding going concern assumption)	8
(Notes in case of significant changes in equity).....	8

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

During the nine months ending March 31, 2014 (from July 1, 2014 to March 31, 2015), the Company continued to leverage its PDPS (Peptide Discovery Platform System) technology, its proprietary drug discovery and development platform system, making continued progress in joint research and development activities with pharmaceutical partners both in Japan and abroad.

During the current period, the Company agreed with Novartis to continue preclinical and optimization work on a nonstandard constrained/macrocyclic peptide (with the target undisclosed), initially discovered under the 2010 Collaboration and License Agreement (extended in 2012 and again in September 2014). Furthermore, in December 2014 the Company additionally extended an agreement on joint research and development with Novartis around another drug discovery target program.

The rising reputation of the Company's PDPS and nonstandard constrained/macrocyclic peptide approach was further highlighted in a presentation in August 2014 by U.S.-based Bristol-Myers Squibb, at the 248th "American Chemical Society National Meeting and Exposition," held in San Francisco in the U.S., in which the power of the Company's PDPS technology for the identification of novel therapeutically relevant constrained peptides (termed "Millamolecules" by Bristol-Myers Squibb) and the potential for using these constrained peptides to target difficult to drug targets was discussed. One of the lead programs between the Company and Bristol-Myers Squibb was presented as an example. Progress of the Company's discovery collaboration with Bristol-Myers Squibb was further validated with the filing of a patent by Bristol-Myers Squibb for macrocyclic peptide inhibitors of the PD1/PD-L1 and CD80/PD-L1 protein/protein interactions, with the PD1/PD-L1 interaction currently the hottest and most promising target in the immune-oncology space, following the marketing approval of Bristol-Myers Squibb's anti-PD1 antibody (Opdivo; nivolumab) and Merck's (Keytruda; pembrolizumab). The macrocyclic peptide inhibitors identified in the discovery collaboration represent another very promising approach, and therapeutic alternative to the approved antibodies, for the treatment of a wide range of cancers. Based on the strong success of the discovery collaboration, in September 2013, the Company concluded a non-exclusive License Agreement with Bristol-Myers Squibb for the PDPS technology. During the reporting period, the technology transfer of the PDPS technology to Bristol-Myers Squibb was completed and Bristol-Myers Squibb has recently started utilizing the PDPS technology internally for the identification of nonstandard constrained/macrocyclic peptides.

UK-based AstraZeneca (MedImmune) reported on macrocyclic peptides identified at PeptiDream, the first cyclic peptide direct binders to Ras that are functionally active in inhibiting Kras in cancer cells, validating that PeptiDream's macrocyclic peptides can penetrate cells and inhibit previously intractable intracellular targets. Kras is one of the most frequently mutated oncogenes in cancer, and represents a promising therapeutic target, but has been stubbornly intractable. Further optimization and development of the lead candidates is currently ongoing.

The Company, during the period, continues to make exciting progress with internal (in-house) discovery programs, including the HA discovery program, and looks forward to releasing those developments in the near future. Additionally, the Company also has expanded the number of internal peptide-drug-conjugate (PDC) programs ongoing.

As a result of operations, the Company reported net sales of 535,589 thousand yen (down 61,679 thousand yen from the same period of the previous fiscal year), an operating loss of 72,798 thousand yen (versus an operating income of 132,792 thousand yen for the same period of the previous fiscal year), ordinary income of 12,124 thousand yen (down 147,223 thousand yen from the same period of the previous fiscal year), and net income of 5,417 thousand yen (down 102,234 thousand yen from the same period of the previous fiscal year) for the nine months ending March 31, 2015.

The Company operates in a single business segment, and thus statements for segment information are omitted.

(2) Explanation of Financial Position

1) Analysis of financial position

Total assets at the end of the third quarter ending March 31, 2015 increased by 24,769 thousand yen from the end of the previous fiscal year to 6,024,043 thousand yen. The main factors were an increase in accounts receivable by 37,723 thousand yen and in tangible fixed assets of 150,727 thousand yen.

Liabilities decreased by 110,358 thousand yen from the end of the previous fiscal year to 25,709 thousand yen. The main

factor was a decrease of 25,698 thousand yen in income taxes payable.

Net assets rose 50,479 thousand yen from the end of the previous fiscal year to 5,913,684 thousand yen. This was mainly because net income amounting to 5,417 thousand yen was recorded and capital stock and capital surplus increased by 16,081 thousand yen and 16,081 thousand yen, respectively.

2) Analysis of status of cash flows

Cash and cash equivalents for the nine months ending March 31, 2015 increased by 2,010,402 thousand yen from the end of the previous fiscal year to 4,210,794 thousand yen.

Status of cash flows and the factors during the nine months ending March 31, 2015 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash outflow of 72,978 thousand yen (decreased by 12,634 thousand yen from the same period of the previous fiscal year). This was mainly due to an increase of 37,723 thousand yen in notes and accounts receivable - trade, and income taxes paid amounting to 40,072 thousand yen, despite recording of income before income taxes amounting to 12,124 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash inflow of 1,987,063 thousand yen (cash outflow of 3,428,523 thousand yen for the same period of the previous fiscal year). This was due to proceeds from redemption of securities amounting to 2,300,000 thousand yen, while purchase of property, plant and equipment amounted to 209,196 thousand yen.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 44,411 thousand yen (increased by 27,251 thousand yen from the same period of the previous year). This was due to proceeds from the issuance of shares resulting from exercise of subscription rights to shares and proceeds from issuance of subscription rights to shares amounting to 31,629 thousand yen and proceeds from issuance of subscription rights to shares amounting to 12,781 thousand yen.

(3) Explanation of Financial Forecasts and Other Forward-looking Information

The Company has revised up its forecast of financial results announced on April 29, 2015 as follows.

Revision of financial forecasts for the Fiscal Year Ending June 30, 2015 (July 1, 2014 to June 30, 2015)

(millions of yen)

	Net sales	Operating income	Ordinary income	Net income	Net income per share (yen)
Forecast previously announced (A)	2,222	631	570	367	27.35
Revised forecast (B)	2,222	953	1,033	652	47.74
Change (B - A)	0	321	462	285	
Rate of change (%)	0.0	50.9	81.0	77.6	
(Ref.) Results for the year ended June 30, 2014	818	201	221	148	11.09

* Net sales were revised up and previously announced on April 29, 2015.

2. Summary Information (Notes)

(1) Adoption of Accounting Policies Specific to the Preparation of Quarterly Financial Statements

Not applicable.

(2) Changes in Accounting Policies, Changes in Accounting Estimates and Retrospective Restatements

Not applicable.

3. Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Thousands of yen)

	As of June 30, 2014	As of March 31, 2015
Assets		
Current assets		
Cash and deposits	3,400,392	5,410,794
Accounts receivable - trade	182,174	219,898
Securities	2,200,000	-
Deferred tax assets	20,400	13,904
Other	31,659	59,372
Total current assets	5,834,626	5,703,969
Non-current assets		
Property, plant and equipment		
Facilities attached to buildings, net	8,101	19,946
Tools, furniture and fixtures, net	156,405	295,287
Total property, plant and equipment	164,506	315,233
Intangible assets	140	3,535
Investments and other assets		
Deferred tax assets	-	1,304
Total Investments and other assets	-	1,304
Total non-current assets	164,646	320,073
Total assets	5,999,273	6,024,043
Liabilities		
Current liabilities		
Accounts payable - trade	9,080	19,398
Accounts payable - other	10,050	27,249
Accrued expenses	40,796	27,420
Income taxes payable	25,698	-
Advances received	43,587	29,643
Other	6,854	6,646
Total current liabilities	136,068	110,358
Total liabilities	136,068	110,358
Net assets		
Shareholders' equity		
Capital stock	2,734,254	2,750,336
Capital surplus	2,730,536	2,746,618
Retained earnings	395,404	400,822
Total shareholders' equity	5,860,196	5,897,776
Subscription rights to shares	3,009	15,908
Total net assets	5,863,205	5,913,684
Total liabilities and net assets	5,999,273	6,024,043

(2) Quarterly Statements of Income

Nine months ended March 31, 2014 and 2015

(Thousands of yen)

	Nine months ended March 31, 2014	Nine months ended March 31, 2015
Net sales	597,269	535,589
Cost of sales	233,311	369,744
Gross profit	363,958	165,845
Selling, general and administrative expenses	231,165	238,644
Operating income (loss)	132,792	(72,798)
Non-operating income		
Interest income	3,780	5,502
Foreign exchange gains	22,863	79,732
Other	2	339
Total non-operating income	26,645	85,574
Non-operating expenses		
Share issuance cost	90	120
Other	-	530
Total non-operating expenses	90	650
Ordinary income	159,348	12,124
Income before income taxes	159,348	12,124
Income taxes - current	28,257	1,515
Income taxes - deferred	23,438	5,191
Total income taxes	51,695	6,707
Net income	107,652	5,417

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Nine months ended March 31, 2014	Nine months ended March 31, 2015
Cash flow from operating activities		
Income before income taxes	159,348	12,124
Depreciation	52,842	73,307
Interest and dividend income	(3,780)	(5,502)
Foreign exchange losses (gains)	(15,490)	(51,905)
Share issuance cost	90	120
Decrease (increase) in notes and accounts receivable - trade	(96,978)	(37,723)
Increase (decrease) in notes and accounts payable - trade	2,285	10,317
Increase (decrease) in accounts payable - other	(33,338)	2,705
Increase (decrease) in accrued expenses	2,587	(13,376)
Increase (decrease) in advances received	(47,742)	(13,943)
Other, net	(47,390)	(17,435)
Subtotal	(27,566)	(41,310)
Interest and dividend income received	1,728	8,405
Income taxes paid	(59,774)	(40,072)
Net cash provided by (used in) operating activities	(85,612)	(72,978)
Cash flow from investing activities		
Net decrease (increase) in time deposits	(1,200,000)	-
Purchase of short-term and long-term investment securities	(2,200,000)	(100,000)
Proceeds from redemption of securities	-	2,300,000
Purchase of property, plant and equipment	(28,523)	(209,196)
Purchase of intangible assets	-	(3,740)
Net cash provided by (used in) investing activities	(3,428,523)	1,987,063
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	17,160	31,629
Proceeds from issuance of subscription rights to shares	-	12,781
Net cash provided by (used in) financing activities	17,160	44,411
Effect of exchange rate change on cash and cash equivalents	15,490	51,905
Net increase (decrease) in cash and cash equivalents	(3,481,485)	2,010,402
Cash and cash equivalents at beginning of period	5,572,450	2,200,392
Cash and cash equivalents at end of period	2,090,965	4,210,794

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.