Non-consolidated Financial Results
for the Three Months Ended September 30, 2017
[Japanese GAAP]

November 8, 2017

Company name:	PeptiDream Inc.	Tokyo Stock Exchange	
Stock code:	4587	URL http://www.peptidream.com/	
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Scheduled filing date of quarterly securities report: November 9, 2017
Scheduled starting date of dividend payments: —
Supplementary briefing materials on quarterly financial results: No
Explanatory meeting on quarterly financial results: No

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

1. Financial Results for the Three Months Ended September 30, 2017(July 1, 2017 to September 30, 2017)

(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	%
Three Months ended September 30, 2017	171	(78.5)	(1,030)	-	(932)	-	(649)	-
Three Months ended September 30, 2016	796	104.6	380	403.9	398	588.0	279	643.7

	Net income per share	Diluted net income per share
	Yen	Yen
Three Months ended September 30, 2017	(5.51)	-
Three Months ended September 30, 2016	2.45	2.15

(Note) Based on a resolution made by the Board of Directors of the Company at a meeting held on June 13, 2017, the Company conducted a share split of the Company's common stock at a ratio of 2-for-1, effective July 1, 2017. Net income per share and diluted net income per share are calculated assuming the share split was conducted at the beginning of the previous fiscal year.

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2017	12,520	11,591	92.6
As of June 30, 2017	13,628	12,180	89.4

(Reference) Equity As of September 30, 2017: 11,590 million yen
As of June 30, 2017: 12,178 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, 2017	-	0.00	-	0.00	0.00
Fiscal Year ending June 30, 2018	-				
Fiscal Year ending June 30, 2018 (forecast)		0.00	-	0.00	0.00

(Note) Revisions to the dividend forecast announced most recently: No

3. Financial Forecasts for the Fiscal Year Ending June 30, 2018 (July 1, 2017 to June 30, 2018)

	Net sales	Operating income	Ordinary income	Net income
	Million yen	Million yen	Million yen	Million yen
Fiscal Year	7,000 or more	2,900 or more	3,100 or more	2,100 or more

(Note) Revisions to the consolidated financial forecast announced most recently: No

[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)	As of September 30, 2017	120,114,400 shares	As of June 30, 2017	114,618,400 shares
2) Number of treasury stock at the end of the period	As of September 30, 2017	150,217 shares	As of June 30, 2017	150,200 shares
3) Average number of shares during the period	Three months ended September 30, 2017	117,866,620 shares	Three months ended September 30, 2016	113,773,357 shares

(Note) Based on a resolution made by the Board of Directors of the Company at a meeting held on June 13, 2017, the Company conducted a share split of the Company's common stock at a ratio of 2-for-1, effective July 1, 2017. Number of shares issued at the end of the period and average number of shares during the period have been calculated as if the stock split was conducted at the beginning of the previous fiscal year. The number of treasury shares at the end of the period includes shares in the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E) (150,200 shares as of June 30, 2017, 150,200 shares as of September 30, 2017). In addition, the shares in the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E) are included in treasury shares excluded from calculating the average number of shares during the period (87,650 shares for the fiscal year ended June 30, 2017, 150,200 shares for the three months ended September 30, 2017).

* Quarterly financial results reports are not required to be subjected to quarterly review

* 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.

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

(1) Explanation of Operating Results

During the three months ended September 30, 2017 ("Q1")(from July 1, 2017 to September 30, 2017), the Company continued to make excellent progress in leveraging the PDPS (Peptide Discovery Platform System) technology, its proprietary drug finding platform, across its three business segments; 1) Collaboration Discovery and Development, 2) PDPS Technology Transfer, and 3) In-House/Strategic Discovery and Development. As of September 30, 2017, the Company had 68 discovery & development programs ongoing, 24 of which have reached the Hit-to-Lead stage, 8 which have reached the Lead-to-Pre-Clinical Stage, 3 of which have been selected as Clinical Candidates, and 1 that has completed a Phase I trial.

In the Collaboration Discovery and Development segment; while there were no major press releases in Q1, the Company continues to make exceptional progress across multiple programs with its 17 big pharma partners. The Company continues to receive various R&D support payments from these partners, in addition to various potential pre-clinical and clinical milestones payments as the programs advance. The Company looks forward to announcing future updates on these programs as additional milestones are met, and as allowed by the partner companies. In addition, the Company continues to receive considerable interest from multiple big pharma companies interested in partnering with the Company on discovery and development programs.

In the PDPS Technology Transfer segment; as of September 30, 2017, the Company has non-exclusively licensed its PDPS technology to 5 companies; Bristol-Myers Squibb, Novartis, Lilly, Genentech, and Shionogi. The PDPS technology is fully operational at 4 of these companies, with all companies actively using the PDPS technology for drug discovery and development on multiple programs. In accordance with the PDPS technology license agreements, the Company is not informed as to what specific discovery and development programs are being prosecuted by the licensee company until certain initial pre-clinical milestones are achieved. The Company continues to receive various technology license and management payments from the licensee companies, in addition to potential preclinical and clinical milestone payments as the programs advance. The Company expects Shionogi to become operational with the PDPS technology within the current fiscal year. In addition, the Company continues to receive interest from multiple companies interested in licensing the PDPS technology.

In the In-House/Strategic Discovery and Development segment; the Company's move to its new headquarters and research facilities in Kanagawa has now provided much needed lab space and equipment capabilities for the Company to significantly expand its efforts in this segment, which the Company views as an important 3rd segment for future revenue growth. As of September 30, 2017, the Company had significantly expanded the number of In-House/Strategic Discovery and Development programs. The goal of these efforts is to develop the programs to at least the pre-Phase I stage, or potentially post-Phase I/II stage, before seeking to license these programs out to big pharma companies, leveraging the Company's strong big pharma network, for significantly higher financials than can be attained from standard discovery and development deals. The Company has continually been expanding its capabilities in turning hit candidates identified from the PDPS technology into 1) peptide therapeutics, 2) peptide drug conjugates ("PDCs"), and 3) small molecule therapeutics. Programs being developed with Strategic partners, Strategic partners being companies that bring proprietary technology/know-how to combine with the Company's, are under a cost-sharing agreement, in which the costs of discovery and development are equally shared, allowing for the Company to have a far larger share in the program and future revenues if successful.

The Company had previously announced strategic partnerships with three companies, JCR Pharma, Modulus Discovery, and Heptares. The Company and JCR Pharma are jointly working to identify macrocyclic peptides capable of carrying therapeutic cargoes across the normally impenetrable blood-brain-barrier ("BBB"). Such peptides could be conjugated to small molecule, peptide/protein, and/or antibody therapeutics that classically do not cross the BBB and enter the brain, potential allowing for a number of new treatments for neurological disorders. The Company and JCR Pharma aim to validate the functionality of these peptides in animal models for multiple therapeutic cargo types, and then seek to license these peptides out to various companies for specific therapeutic indications. The Company believes that these peptides could be used in a large number of brain targeting products and have significant commercial and therapeutic potential in treating neurological diseases.

The Company and Modulus Discovery aim to leverage the expertise of both companies to jointly discover and develop small molecule clinical candidates based on hit candidates identified from the PDPS technology against high value targets. Modulus Discovery will utilize its computational chemistry technology and expertise to design small molecule candidates in collaboration with the Company and its our internal efforts. This strategic partnership will allow the Company to significantly expand the number of programs in the PDPS hit candidate-to-small molecule space, well above what the Company can handle on its own with its current in-house capabilities. The companies will jointly share the costs of the discovery and development programs and will co-own any resulting products. The Company has already identified hit candidate peptides against ten (10) kinase targets. Kinases represent a family of well-known disease targets and have been extensively studied, with a number of small molecule kinase inhibitors on the market or in clinical testing, however the majority of these compete directly with the ATP binding site common to the kinase family, and exhibit low selectivity, significant toxicity, and are susceptible to mutations that can render them inactive. The key differentiator of the Company and Modulus approach is the focus on identifying candidates that inhibit independently from the ATP-binding site (allosteric), thus allowing for superior selectivity, no toxicity, and rendering them far more resistant to mutations.

The Company and Heptares aim to discover, develop and commercialize novel therapeutics targeting an undisclosed G protein-coupled receptor ("GPCR") with an important role in inflammatory disease. The strategic partnership brings together two powerful technologies, Heptares's StaR platform for GPCR target protein production and the Company's PDPS hit finding technology, in addition to considerable preclinical and clinical development capabilities. Under the agreement, the companies will jointly share the costs and will co-own any resulting products.

On July 18, 2017, the Company announced a 4th strategic partnership with US-based Kleo Pharmaceuticals ("Kleo") to co-discover and develop novel immune-oncology products in multiple indications. The Company will identify macrocyclic peptides using its PDPS technology against multiple oncology targets selected by Kleo, and in turn, Kleo will engineer those candidates into novel Antibody Recruiting Molecule ("ARM") and Synthetic Antibody Mimic ("SyAM") products. The Company believes that these products have significant commercial and therapeutic potential in directing ones' own immune system to combat cancer, an area that has shown exceptional promise in the last few years toward eradicating cancer. Kleo will lead all preclinical and clinical testing of products and will have the right to develop and commercialize all compounds resulting from the collaboration. The Company will receive a tiered share of the proceeds of any products based on the degree to which the Company funds development of the products. Under the cost sharing structure of the agreement, the Company made a one-time payment of USD$2,800,000 to Kleo upon agreement signing to cover the Company's contribution to the engineering and preclinical testing of multiple products.

On September 25, 2017, the Company announced exciting results from a previously undisclosed strategic partnership with Kawasaki Medical School. The Company and Kawasaki Medical School had been working on a peptide therapeutic for the treatment of Duchenne Muscular Dystrophy ("DMD"), a genetic disorder characterized by progressive muscle degeneration and weakness to which there are no effective treatments. The announced results showed that administration of the jointly developed candidate peptide significantly reduced muscle degeneration and weakness in an animal model of DMD, validating this peptide candidate as a potentially breakthrough treatment for DMD. The Company and the Medical School are now accelerating preclinical development with the aim of bringing this candidate into human testing in the near future.

The Company expects to continue to form strategic partnerships with select-technology-leading bioventures and leading institutions, both in Japan and abroad, to accelerate and expand our clinical pipeline of best-in-class and first-in-class medicines.

On August 7, 2017, the Company, along with Shionogi & Co., and Sekisui Chemical Co., Ltd, announced the formation of PeptiStar Inc., a Contract Manufacturing Organization ("CMO") for the research and commercial manufacture of peptide therapeutics. PeptiStar will bring together the most cutting-edge technologies and innovations in large-scale peptide production from various companies throughout Japan in order to manufacture therapeutic peptides of the highest quality and purity, while simultaneously driving down the cost of production. It is anticipated that PeptiStar will become the go-to CMO for all of the Company's discovery and development partners, in addition to the Company's own in-house/strategic partnered programs. The PeptiStar manufacturing facility will be located in Osaka, with a planned opening in 2019.

On August 22, 2017 the Company announced that founding President Kiichi Kubota would step down as president and assume the role of Chairman, and Dr. Patrick Reid would take over the role of President at the Company. This change was approved and went into effect at the Board of Directors meeting following the Annual Shareholders Meeting on September 26, 2017.

As of September 30, 2017, the Company had a total of 71 employees (79 when including executive officers).

As a result, the Company reported net sales of 171,393 thousand yen (decreased 624,816 thousand yen year on year), an operating loss of 1,030,729 thousand yen (operating income of 380,548 thousand yen in the same period of the previous fiscal year), an ordinary loss of 932,592 thousand yen (ordinary income of 398,866 thousand yen in the same period of the previous fiscal year) and a net loss of 649,779 thousand yen (net income of 279,265 thousand yen in the same period of the previous fiscal year) for the three months ended September 30, 2017. The main reason for the decline in net sales was due to the absence of any upfront payments related to new deals and the absence of any discovery and development milestone payments during the first quarter. The main reason for the net loss was due to the decrease in net sales and the increase in research and development expenses for the quarter. Research and development expenses for the quarter amounted to 510,943 thousand yen (an increase of 444,743 thousand yen year on year), largely attributable to the 314,804 thousand yen payment to Kleo Pharmaceuticals (as explained above).

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 first quarter ended September 30, 2017 decreased by 1,108,063 thousand yen from the end of the previous fiscal year to 12,520,388 thousand yen. This was mainly because cash and deposits decreased by 2,603,186 thousand yen, accounts receivable - trade decreased by 1,662,104 thousand yen and construction in progress decreased by 3,540,685 thousand yen, despite an increase in buildings, net, by 4,444,758 thousand yen and an increase in tools, furniture and fixtures, net, by 1,047,451 thousand yen.

Liabilities decreased by 518,874 thousand yen from the end of the previous fiscal year to 928,776 thousand yen. This was mainly because accrued expenses and income taxes payable etc. decreased by 281,232 thousand yen and 256,475 thousand yen, respectively.

Net assets decreased by 589,189 thousand yen from the end of the previous fiscal year to 11,591,612 thousand yen. This was mainly due to a decrease of 649,779 thousand yen in retained earnings by net loss.

2) Analysis of status of cash flows

Cash and cash equivalents for the three months ended September 30, 2017 decreased by 2,603,186 thousand yen from the end of the previous fiscal year to 3,953,493 thousand yen.

Status of cash flows and related factors during the three months ended September 30, 2017 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash outflow of 264,980 thousand yen (an inflow of 748,899 thousand yen in the same quarter of the previous fiscal year). This was mainly due to the recording of loss before income taxes of 935,185 thousand yen, a decrease in accrued expenses of 281,232 thousand yen, an increase in consumption taxes receivable of 492,027 thousand yen included in other, net, and income taxes paid amounting to 208,267 thousand yen, despite a decrease in notes and accounts receivable - trade of 1,662,104 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 2,391,092 thousand yen (a 2,361,545 thousand yen increase in outflow year on year). This was mainly due to 2,265,971 thousand yen for purchase of property, plant and equipment, and 100,000 thousand yen for purchase of shares of subsidiaries and associates.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 60,379 thousand yen (a 259,437 thousand yen decrease in inflow year on year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 60,437 thousand yen.

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

While every income item recorded a loss, the first quarter (Q1) results were in line with Company's full-year forecasts, and the financial forecasts remain unchanged for the fiscal year ending June 30, 2018 as announced on August 9, 2017.

	Results for the three months ended September 30, 2016	Results for the full year ended June 30, 2017	Results for the three months ended September 30, 2017	Forecasts for the full year ending June 30, 2018
Capital expenditures (million)	49	1,890	2,290	2,639
Depreciation expense (million)	42	174	131	562
Research and development expenses (million)	66	362	510	922
Year-end headcount (employees*)	55	67	71	86

*Year-end headcount includes both full-time and temp staff.

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, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	6,556,679	3,953,493
Accounts receivable - trade	1,754,752	92,647
Prepaid expenses	74,247	156,157
Deferred tax assets	135,732	411,412
Other	-	513,234
Total current assets	8,521,412	5,126,944
Non-current assets		
Property, plant and equipment		
Buildings, net	1,598	4,446,356
Structures, net	-	205,433
Tools, furniture and fixtures, net	291,763	1,339,214
Land	1,000,000	1,004,545
Construction in progress	3,562,285	21,600
Total property, plant and equipment	4,855,647	7,017,150
Intangible assets		
Goodwill	62,456	57,392
Software	4,705	86,158
Other	54,710	1,950
Total intangible assets	121,872	145,500
Investments and other assets		
Shares of subsidiaries and associates	-	100,000
Long-term loans receivable	100,000	100,000
Long-term prepaid expenses	14,928	13,953
Deferred tax assets	966	11,477
Other	13,624	5,361
Total investments and other assets	129,520	230,792
Total non-current assets	5,107,040	7,393,444
Total assets	13,628,452	12,520,388
Liabilities		
Current liabilities		
Accounts payable - trade	23,792	31,368
Accounts payable - other	62,250	315,095
Accrued expenses	342,468	61,235
Income taxes payable	264,807	8,331
Advances received	357,204	348,226
Deposits received	76,311	14,681
Asset retirement obligations	15,600	-
Other	205,215	49,837
Total current liabilities	1,347,650	828,776
Non-current liabilities		
Provision for directors' share benefits	100,000	100,000
Total non-current liabilities	100,000	100,000
Total liabilities	1,447,650	928,776

(Thousands of yen)

	As of June 30, 2017	As of September 30, 2017
Net assets		
Shareholders' equity		
Capital stock	3,870,769	3,901,491
Capital surplus	3,867,051	3,897,773
Retained earnings	4,871,608	4,221,829
Treasury stock	(430,869)	(430,927)
Total shareholders' equity	12,178,559	11,590,166
Subscription rights to shares	2,242	1,445
Total net assets	12,180,801	11,591,612
Total liabilities and net assets	13,628,452	12,520,388

(2) Quarterly Statements of Income

Three months ended September 30, 2016 and 2017

(Thousands of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Net sales	796,209	171,393
Cost of sales	239,345	423,992
Gross profit (loss)	556,864	(252,598)
Selling, general and administrative expenses	176,315	778,130
Operating income (loss)	380,548	(1,030,729)
Non-operating income		
Interest income	415	1,080
Foreign exchange gains	19,062	-
Operation consignment fee	-	101,481
Total non-operating income	19,478	102,561
Non-operating expenses		
Share issuance cost	1,160	210
Foreign exchange loss	-	4,214
Total non-operating expenses	1,160	4,425
Ordinary income (loss)	398,866	(932,592)
Extraordinary losses		
Loss on retirement of non-current assets	-	2,592
Total extraordinary losses	-	2,592
Income (loss) before income taxes	398,866	(935,185)
Income taxes - current	41,314	784
Income taxes - deferred	78,285	(286,190)
Total income taxes	119,600	(285,405)
Net income (loss)	279,265	(649,779)

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Three months ended September 30, 2016	Three months ended September 30, 2017
Cash flow from operating activities		
Income (loss) before income taxes	398,866	(935,185)
Depreciation	42,634	131,083
Amortization of goodwill	5,064	5,064
Interest and dividend income	(415)	(1,080)
Foreign exchange losses (gains)	11,097	7,492
Share issuance cost	1,160	210
Loss on retirement of non-current assets	-	2,592
Decrease (increase) in notes and accounts receivable - trade	1,343,576	1,662,104
Decrease (increase) in prepaid expenses	(10,645)	(81,909)
Increase (decrease) in notes and accounts payable - trade	5,128	7,575
Increase (decrease) in accounts payable - other	6,408	228,327
Increase (decrease) in accrued expenses	(158,604)	(281,232)
Increase (decrease) in advances received	(121,905)	(8,978)
Increase (decrease) in deposits received	(51,090)	(61,629)
Other, net	(27,508)	(732,230)
Subtotal	1,443,765	(57,794)
Interest and dividend income received	415	1,080
Income taxes paid	(695,281)	(208,267)
Net cash provided by (used in) operating activities	748,899	(264,980)
Cash flows from investing activities		
Purchase of shares of subsidiaries and associates	-	(100,000)
Purchase of property, plant and equipment	(29,547)	(2,265,971)
Purchase of intangible assets	-	(33,383)
Other, net	-	8,263
Net cash provided by (used in) investing activities	(29,547)	(2,391,092)
Cash flows from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	319,817	60,437
Purchase of treasury stock	-	(58)
Net cash provided by (used in) financing activities	319,817	60,379
Effect of exchange rate change on cash and cash equivalents	(11,097)	(7,492)
Net increase (decrease) in cash and cash equivalents	1,028,071	(2,603,186)
Cash and cash equivalents at beginning of period	6,909,149	6,556,679
Cash and cash equivalents at end of period	7,937,221	3,953,493

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.