Non-consolidated Financial Results for the Three Months Ended March 31, 2020 [Japanese GAAP]

May 14, 2020

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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 March 31, 2020 (January 1, 2020 to March 31, 2020)

(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 March 31, 2020	393	-	(481)	-	(488)	-	(340)	-
Three Months ended September 30, 2019	394	(28.9)	(412)	-	(269)	-	(185)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Three Months ended March 31, 2020	(2.71)	-
Three Months ended September 30, 2019	(1.48)	-

(Note) PeptiDream has changed its fiscal-year end in fiscal 2019 from June 30 to December 31. As a result, the period for the first quarter of the fiscal year ended December 31, 2020 (from January 1, 2020 to March 31, 2020) is different from that of the first quarter of the previous fiscal year (from July 1, 2019 to September 30, 2019) . Therefore, the percentage changes from the previous fiscal year are not shown.

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2020	17,866	16,636	92.6
As of December 31, 2019	17,817	16,978	94.8

(Reference) Equity As of March 31, 2020: 16,552 million yen
As of December 31, 2019: 16,893 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 December 31, 2019	-	-	-	0.00	0.00
Fiscal Year ending December 31, 2020	-				
Fiscal Year ending December 31, 2020 (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 December 31, 2020 (January 1, 2020 to December 31, 2020)

	Net sales	Operating income	Ordinary income	Net income
	Million yen	Million yen	Million yen	Million yen
Fiscal Year ending December 31, 2020	10,000 or more	5,300 or more	5,400 or more	4,000 or more

(Notes) 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 March 31, 2020	125,910,400 shares	As of December 31, 2019	125,310,400 shares
2) Number of treasury stock at the end of the period	As of March 31, 2020	143,452 shares	As of December 31, 2019	143,452 shares
3) Average number of shares during the period	Three months ended March 31, 2020	125,490,025 shares	Three months ended September 30, 2019	125,166,948 shares

(Note) 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) (143,400 shares as of December 31, 2019, 143,400 shares as of March 31, 2020). 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 (143,400 shares for the fiscal year ended December 31, 2019, 143,400 shares for the three months ended March 31, 2020).

* Quarterly financial results reports are not required to be subjected to quarterly review by a certified public accountant or an audit firm

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

(Caution regarding forward-looking statements)

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 March 31, 2020 (from January 1, 2020 to March 31, 2020), 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.

【The Company's business strategy】		Partners at the end of the fiscal quarter under review
1	Collaboration discovery and development agreements	19
2	PDPS non-exclusive technology license agreements	7
3	In-house/ Strategic partner agreements	10

As of March 31, 2020, the Company's pipeline consisted of 111 discovery & development programs (representing a net increase of 4 programs from the end of the prior fiscal year ending December 31, 2019).

The below table is a snapshot of the number of program(s) for each drug discovery approach.

【Number of programs for each drug discovery approach】	As of March 31, 2020
Peptide drugs	74
Small molecule drugs	
Peptide drug conjugates ("PDCs")	37
Total	111

The below table is a snapshot of the number of program(s) currently at each stage of the discovery and development process, compared to the end of the prior fiscal year.

【Number of programs at each stage of the discovery and development process】	As of December 31, 2019	As of March 31, 2020
Target Validation-to-Hit Stage	43	42
Hit-to-Lead Stage	43	47
Lead-to-GLP-Tox Stage	11	12
GLP-Tox-to-IND Stage	8	8
Phase I	2	2
Phase II	0	0
Phase III	0	0
Total	107	111

The figures in the above table include programs in the Collaboration Discovery and Development segment and the In-House/Strategic Discovery and Development segment, and DO NOT include programs in the PDPS Technology Transfer segment.

In the Collaboration Discovery and Development segment; During the current fiscal quarter under review there was no specific milestone events to which the Company was allowed to issue a press release in the Collaboration Discovery and Development segment.

The Company continues to receive various R&D support payments from its big pharma discovery and development partners, in addition to being eligible for potential pre-clinical and clinical milestones payments as the programs advance, as well as being eligible for commercial sales milestones and royalties on net sales of any commercialized products. The Company looks forward to announcing future updates 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 December 31, 2019, the Company has non-exclusively licensed its PDPS technology to 7 companies; Bristol-Myers Squibb (2013), Novartis (2015), Lilly (2016), Genentech (2016), Shionogi (2017), MSD (U.S.-Merck & Co. Kenilworth, NJ, USA)(2018), and MiraBiologics (2018). In accordance with all 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 programs advance. 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 continues to expand 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 existing network of partners, 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 continues to pursue a number of in-house fully-owned programs, in addition to the influenza HA program and the IL17 program, and looks forward to providing future updates as these programs progress toward the clinic.

The Company has previously announced strategic partnerships with seven companies, one academic institution and one foundation; JCR Pharma, Modulus Discovery, Heptares, Kleo Pharma, Nihon Medi-Physics, POLA Chemical Industries ("POLA"), Kawasaki Medical School, the Bill & Melinda Gates Foundation, and JSR Corporation.

On March 12, 2020, the Company and Mitsubishi Corporation ("MC") announced the establishment of a joint venture company, PeptiGrowth Inc., ("PeptiGrowth") to develop, produce and sell peptide alternatives to growth factors, key ingredients of cell culture, used in the manufacturing of cell therapy, regenerative medicines and other biopharmaceuticals . PeptiGrowth will be owned 60.5% by MC and 39.5% by PeptiDream. PeptiGrowth will leverage expertise and know-hows of both parent companies to work towards the advancement of cell therapy, regenerative medicines, and other biopharmaceuticals in the pharmaceutical industry. Growth factors are a class of proteins that are widely present in humans and other animals. In addition to playing important roles in cell growth and proliferation, they are crucially involved in induction of differentiation of stem cells (iPS cells, ES cells, etc.) into nerve, blood, and other types of cells. Currently, growth factors are mainly extracted from animal serum or produced by gene recombination technology, however, their production presents a number of challenges to the pharmaceutical industry, including safety risks due to contamination with impurities, variation in quality among production lots, and high production costs. PeptiGrowth will utilize PeptiDream's proprietary drug discovery platform system, PDPS (Peptide Discovery Platform System), to identify alternative peptides that perform the equivalent function as growth factors, and develop a new chemical synthesis method that does not use animal serum or gene recombination technology. In addition, by establishing a commercial manufacturing process and system, PeptiGrowth will achieve high purity, less variation among production lots in terms of specification and quality, with lower costs. Dozens of growth factors have been identified to date, and in order to realize a completely Xeno-Free culture medium, multiple growth factors need to be replaced with chemically synthesized alternative compounds. This is a world-first in terms of the comprehensive development of chemically synthesized, peptide alternatives to multiple growth factors, and both MC and PeptiDream believe such an initiative is essential for further advancement of cell therapy and regenerative medicines in the industry. MC will assign officers for key management positions, and PeptiGrowth will fully leverage the MC Group's global network and its broad customer base to enhance marketing and sales functions.

The Company and JCR Pharma have successfully development a series of constrained peptides capable of carrying various therapeutic payloads across the blood-brain barrier (BBB) for delivery/targeting to the brain, arising from the joint research collaboration between the companies initiated in February 2016. Most therapeutics do not readily cross the BBB into the brain, with only a small fraction of the drug ever entering the central nervous system (CNS), posing a significant challenge to the development of effective therapeutics for the treatment of CNS disorders. The developed peptide carriers, when conjugated to various therapeutic payloads (herein referred to as a peptide-drug conjugates or "PDC"), function to facilitate the transport of the payload across the BBB into the brain, thereby significantly increasing the amount of the therapeutic in the brain. Potential payloads range from antibody and protein therapeutics to nucleic acid, peptide, and small molecules drugs. The current peptides, when conjugated to therapeutic antibodies have proven extremely effective in animal models at targeting the therapeutic antibody to the brain. The companies will continue to investigate further applications of these peptides to other therapeutic payloads and undertake pharmacokinetic studies with a priority on small molecule payloads. The two companies are now focusing on the development of brain-targeting PDCs, utilizing the aforementioned peptide carriers, and have initiated third-party licensing activities. PeptiDream will lead third-party licensing activities to streamline process management and supply the peptide carriers for conjugation to interested third-parties' therapeutic payloads. The companies will share related revenues from licensing activities.

The Company and Modulus Discovery are working 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 is utilizing its computational chemistry technology and expertise to design small molecule candidates in collaboration with the Company and its our internal efforts. The companies 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 a number of high-value kinase targets, that exhibit the desired inhibition activity independent of ATP-binding (allosteric inhibitors), and the companies have recently attained a number of crystal structures of these candidates in complex with their respective kinase targets yielding the structural information needed to enable computational small molecule design efforts. The Company has previously made a strategic equity investment in Modulus and remains a strategic shareholder.

The Company and Heptares are working to discover, develop and commercialize novel therapeutics targeting Protease Activated Receptor 2 (PAR2), which is a well validated target for multiple indications in pain, cancer, and 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. As previously reported, the companies have identified high affinity and selective inhibitors against PAR2 and are making excellent progress toward identifying lead candidates for the program.

The Company and Kleo Pharmaceuticals ("Kleo") are working 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 ("ARMs"), Synthetic Antibody Mimic ("SyAMs") products, or Monoclonal Antibody Therapy Enhancers ("MATEs") products. 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. The Company and Kleo currently have 2 clinical candidates, both of which are referred to as CD38-ARMs (ARM^{TM}), and currently termed KP1237 and KP1196 according to Kleo's pipeline. The CD38-ARMs are designed to recruit endogenous antibodies to multiple myeloma cancer cells, targeting them for destruction via the body's innate antibody-mediated immune mechanisms. CD38 is a validated multiple myeloma target, which is also overexpressed in chronic lymphocytic leukemia and other cancers. The molecules were chosen after showing positive signals towards safety and efficacy in preclinical models. KP1237 is a short acting ARM and intended for use in multiple myeloma ("MM") patients post-transplant. KP1196 is a long acting ARM and intended for a larger market of multiple myeloma patients. Both products are expected to enter clinical testing in 2020. On February 7, 2020, the Company reported that Kleo received IND authorization from the US Food and Drug Administration ("FDA") to initiate a safety and tolerability clinical study combining KP1237 with patients' own Natural Killer ("NK") cells to treat MM in post-transplant patients. In addition, the companies continue to make exciting progress on a number of additional ARM programs, as well as programs in Kleo's other immuno-oncology therapy platforms, Synthetic Antibody Mimics (SyAMs) and Monoclonal

Antibody Therapeutic Enhancers (MATEs). The Company has previously made a strategic equity investment in Kleo and remains a strategic shareholder.

The Company and Nihon Medi-Physics ("NMP") are working to discover, develop, and commercialize novel peptide-radioisotope (RI) conjugates for use as therapeutics and diagnostics. Company has been using its proprietary PDPS technology for the identification of novel peptides for use as Peptide-Drug Conjugates (PDCs). NMP has been pursuing the fusion of therapeutics with diagnostics; "Theranostics", and is a leader in the research, development, and manufacturing of radiopharmaceuticals. The two companies will work together across a variety of programs to conjugate Company's constrained peptides with NMP's radioisotopes to create a new exciting class of therapeutic and diagnostic products. Under the terms of the deal, both companies will independently fund their efforts, and the development and commercialization rights will be shared between the companies under a cost-sharing structured arrangement. The companies will look to commercialize products in Japan & Asia, and potentially license out such products to the United States and Europe.

The Company and POLA Chemical Industries ("POLA") are working to discover and development of dermatology focused peptide-based cosmetics, quasi-drugs, and therapeutics. The Company will identify candidates using its PDPS technology against applicable dermatological targets based on POLA's extensive expertise in the field and work together to commercialize such products. The Company would lead the development of any therapeutics, arising from the collaboration. In addition, the Company will expand its application of the PDPS technology to the discovery and development of peptides for use as quasi-drugs and cosmetics which are led by POLA.

The Company and Kawasaki Medical School are working to develop 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. 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 continuing preclinical development with the aim of bringing this candidate into human testing in the near future.

The Company and the Bill & Melinda Gates Foundation ("Gates Foundation") are working on multiple discovery and development programs aimed at identifying novel therapeutic macrocyclic peptide candidates to treat Malaria and Tuberculosis, two infectious diseases that disproportionately affect people in the world's poorest countries. On Nov 1, 2019, the Company announced that it had been awarded a second grant from the Gates Foundation to fund the next phase of development of a candidate series originally identified under the first grant, awarded in November 2017, for the potential treatment of Tuberculosis caused by Mycobacterium infection. The original grant provided funding for multiple discovery programs aimed at identifying novel therapeutic macrocyclic peptide candidates ("hit candidates") to treat Malaria and Tuberculosis, and these efforts yielded a number of promising hit series against a number of high-value targets, with future development steps under consideration. The new funding will cover PeptiDream's efforts in turning one of the most promising hit candidate series into lead candidates ("hit-to-lead development funding") suitable for future preclinical optimization. Bacterial infections are among the leading causes of morbidity and mortality globally. The global burden of tuberculosis is staggering, with up to one-third of the world's population latently-infected, and with 10.4 million new active cases and 1.8 million deaths occurring annually. Under the terms of the grant(s), any Gates Foundation-funded products will be made available by PeptiDream at an affordable price in lower middle-income countries (LMIC). PeptiDream will be able to merchandise each product in developed countries on its own, through licensees or a combination of both.

The Company and JSR Corporation ("JSR") are working to identify peptides suitable for use in affinity chromatography processes for the purification of certain biopharmaceuticals, namely antibody therapeutics. The manufacturing process for complex biopharmaceuticals, such as antibody therapeutics, generally consists of a target protein generation process, followed by a purification process that uses affinity chromatography to separate the target protein from the cells and various impurities by binding the proteins to a specific ligand or peptide. The development and commercialization of new affinity chromatography media based on unique, synthetic peptides has the potential to simplify the purification process and lower overall costs. This development effort will specifically focus on ensuring consistent quality and reliable mass production of ligands based on unique peptides that will enhance purification efficiency enabling the purification of biopharmaceuticals that are generally considered difficult to purify

through conventional affinity chromatography.

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.

The Company has previously announced, along with Shionogi & Co., and Sekisui Chemical Co., Ltd, the formation of PeptiStar Inc., a Contract Development and Manufacturing Organization ("CDMO") 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 is located in Osaka and became fully operational from October 2019. On Dec 6, 2019, PeptiStar Inc., and AMED (The Japan Agency for Medical Research and Development) announced they had accomplished the CiCLE project goal, "establishment of a global leading contract manufacturing organization (CMO) for constrained peptide medicines".

The Company continues its commitment to promoting ESG (Environmental, Social, and Governance) initiatives and its sustainability efforts including focus areas, ten most material issues, relevant policies and data are proactively disclosed on the corporate website (https://www.peptidream.com/esg/data_en.html). The Company will continue to strive to meet the highest standards for environmental responsibility, social promotion, and good corporate governance. In June 2019, the Company expressed support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As of March 31, 2020, the Company had a total of 124 employees (131 employees when including executive officers; approximately 40% of employees are women), representing an addition of 1 employee during the Q1 quarter. The Company also has the equivalent of 15 chemists in China, through a contract research organization ("CRO"), working on amino acid and small molecule chemistry.

As a result, the Company reported net sales of 393,782 thousand yen (decreased 1,095 thousand yen year on year), operating loss of 481,278 thousand yen (increased 68,444 thousand yen year on year), ordinary loss of 488,296 thousand yen (increased 218,852 thousand yen year on year), and net loss of 340,700 thousand yen (increased 155,433 thousand yen year on year) for the three months ended March 31, 2020.

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

(Note) PeptiDream has changed its fiscal-year end from June 30 to December 31. As a result, the period for the first quarter of the fiscal year ended December 31, 2020 (from January 1, 2020 to March 31, 2020) is different from that of the first quarter of the previous fiscal year (from July 1, 2019 to September 30, 2019). Therefore, the year-on-year changed of the operating results are not shown.

(2) Explanation of Financial Position

1) Analysis of financial position

Total assets at the end of the first quarter ended March 31, 2020 increased by 49,221 thousand yen from the end of the previous fiscal year to 17,866,562 thousand yen. This was mainly because tools, furniture and fixtures and Deferred tax assets increased by 229,940 thousand yen and 148,848 thousand yen, respectively, despite a decrease of 269,776 thousand yen in accounts receivable - trade.

Liabilities increased by 390,622 thousand yen from the end of the previous fiscal year to 1,229,673 thousand yen. This was mainly because advances received increased by 268,002 thousand yen.

Net assets decreased by 341,400 thousand yen from the end of the previous fiscal year to 16,636,889 thousand yen. This was mainly because retained earnings by net loss decreased by 340,700 thousand yen.

2) Analysis of status of cash flows

Cash and cash equivalents for the three months ended March 31, 2020 increased by 69,578 thousand yen from the end of the previous fiscal year to 7,056,300 thousand yen.

Status of cash flows and related factors during the three months ended September 30, 2019 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 339,594 thousand yen (a 1,118,452 thousand yen decrease in inflow year on year). This was mainly due to a decreased in notes and accounts receivable‐trade of 269,776 thousand yen and increased in advances received of 268,002 thousand yen, despite the recording of loss before income taxes of 488,296 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 266,945 thousand yen (a 257,624 thousand yen increase in outflow year on year). This was mainly due to 263,195 thousand yen for purchase of property, plant and equipment as well as 3,750 thousand yen for purchase of intangible assets.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash inflow of 6,569 thousand yen (a cash flow of nothing in the same quarter of the previous fiscal year). This was due to proceeds from issuance of shares resulting from exercise of subscription rights to shares amounting to 6,569 thousand yen.

(Note) PeptiDream has changed its fiscal-year end from June 30 to December 31. As a result, the period for the first quarter of the fiscal year ended December 31, 2020 (from January 1, 2020 to March 31, 2020) is different from that of the first quarter of the previous fiscal year (from July 1, 2019 to September 30, 2019) . Therefore, the year-on-year changed of the cash flows are not shown.

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

The results for the three months ended March 31, 2020 were in line with Company's full-year forecasts, and the financial forecasts remain unchanged for the fiscal year ending December 31, 2020 as announced on August 8, 2019.

The COVID-19 pandemic has had a certain impact on the Company`s operations. In response to the State of Emergency declaration by the Japanese government on 7th April, the Company shifted operations to limit hours in-the-office basis, allowing employees to work from home whenever possible. For research/work activities that require use of the laboratories, the Company established shortened work weeks and staggered work hours so as to significantly reduce the need for employees to use public transportation and also limit employee interactions once on site. In addition, the Company has been making the utmost efforts to reduce the risk of corona virus infection for its employees, business partners and their families, by implementing both clean/hygienic conditions/practices within office premises and various measures for social distancing to avoid "close contact" with one another. To date, there has been no cases of COVID-19 among Company's employees and executive officers.

The global COVID-19 pandemic has resulted in many of the Company's R&D partners implementing work-from-home policies, while also reducing certain R&D functions/operations, with certain partners/countries/locations affected more than others. Fortunately, most partners now have plans in place to return to normal operations in stages over the coming weeks/months. While these implementations have slowed both partner and Company R&D operations over the past few weeks/months, thus far, the overall financial impact to the Company appears to be minimal. However, it will likely take time to fully understand the impact, if any, of the COVID-19 pandemic on the Company's many discovery and development programs, partners, and financials. Importantly, the Company does not foresee any challenges posed in terms of business continuity. The Company is in robust financial condition with no interest-bearing debt, capital adequacy ratios of more than 90%, and cash and cash equivalents of 7,056 million yen (end of March 2020), more than sufficient to maintain research and development activities, as well as investment in further business growth. In the event that the Company becomes aware of any impact (COVID-19 or other) that would require a revision to the earnings forecasts for December FY2020, the Company will disclose such information immediately.

	Before change in Fiscal Year		After change in Fiscal Year		
	Results for the three months ended September 30, 2018	Results for the full year ended June 30, 2019	Results for the full year ended December 31, 2019	Results for the three months ended March 31, 2020	Forecasts for the full year ending December 31, 2020
	2018/July ~ 2018/Sep	2018/July ~ 2019/June	2019/July ~ 2019/Dec	2020/Jan ~ 2020/Dec	2020/Jan ~ 2020/Dec
Capital expenditures (million yen)	36	185	140	326	500
Depreciation expense (million yen)	128	501	246	137	533
Research and development expenses (million yen)	222	1,141	893	355	1,687
Year-end headcount (employees*)	96	120	123	124	150

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

2. The amount that will actually be paid is shown for capital expenditures.

2. Quarterly Financial Statements

(1) Quarterly Balance Sheets

(Thousands of yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	6,986,722	7,056,300
Accounts receivable - trade	312,492	42,715
Raw materials and stocks	341,316	361,246
Prepaid expenses	150,960	106,989
Other	248,306	195,441
Total current assets	8,039,797	7,762,693
Non-current assets		
Property, plant and equipment		
Buildings, net	3,683,377	3,651,091
Structures, net	160,232	157,114
Tools, furniture and fixtures, net	986,708	1,216,649
Land	904,628	904,628
Total property, plant and equipment	5,734,947	5,929,482
Intangible assets		
Goodwill	11,815	6,751
Software	102,151	96,970
Other	1,622	1,589
Total intangible assets	115,589	105,312
Investments and other assets		
Investment securities	1,295,598	1,288,298
Shares of subsidiaries and associates	1,900,000	1,900,000
Long-term loans receivable	95,839	94,279
Long-term prepaid expenses	16,977	16,752
Deferred tax assets	476,431	625,280
Other	142,158	144,463
Total investments and other assets	3,927,005	4,069,073
Total non-current assets	9,777,543	10,103,869
Total assets	17,817,340	17,866,562
Liabilities		
Current liabilities		
Accounts payable - trade	38,595	91,605
Accounts payable - other	127,138	176,927
Accrued expenses	70,854	84,426
Income taxes payable	22,729	10,912
Advances received	312,923	580,926
Deposits received	12,367	12,715
Other	93,930	111,650
Total current liabilities	678,540	1,069,162
Non-current liabilities		
Provision for employee stock ownership plan trust	15,774	15,774
Provision for directors' share benefits	144,736	144,736
Total non-current liabilities	160,510	160,510
Total liabilities	839,050	1,229,673

(Thousands of yen)

	As of December 31, 2019	As of March 31, 2020
Net assets		
Shareholders' equity		
Capital stock	3,930,541	3,933,885
Capital surplus	3,926,823	3,930,167
Retained earnings	9,488,501	9,147,801
Treasury stock	(411,570)	(411,570)
Total shareholders' equity	16,934,296	16,600,284
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(40,700)	(48,000)
Total valuation and translation adjustments	(40,700)	(48,000)
Subscription rights to shares	84,693	84,604
Total net assets	16,978,289	16,636,889
Total liabilities and net assets	17,817,340	17,866,562

(2) Quarterly Statements of Income

Three months ended September 30, 2019 and March 31 2020

(Thousands of yen)

	Three months ended September 30, 2019	Three months ended March 31, 2020
Net sales	394,877	393,782
Cost of sales	322,095	338,762
Gross profit	72,782	55,019
Selling, general and administrative expenses	485,616	536,298
Operating income (loss)	(412,834)	(481,278)
Non-operating income		
Interest income	1,174	1,710
Foreign exchange gains	4,623	-
Operation consignment fee	137,592	-
Other	-	1,101
Total non-operating income	143,390	2,811
Non-operating expenses		
Foreign exchange loss	-	9,798
Share issuance cost	-	30
Total non-operating expenses	-	9,829
Ordinary income (loss)	(269,444)	(488,296)
Income (loss) before income taxes	(269,444)	(488,296)
Income taxes - current	(2,059)	1,252
Income taxes - deferred	(82,118)	(148,848)
Total income taxes	(84,177)	(147,596)
Net income (loss)	(185,266)	(340,700)

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Three months ended September 30, 2019	Three months ended March 31, 2020
Cash flow from operating activities		
Income (loss) before income taxes	(269,444)	(488,296)
Depreciation	120,213	137,263
Amortization of goodwill	5,064	5,064
Interest and dividend income	(1,174)	(1,710)
Foreign exchange losses (gains)	4,637	9,640
Share issuance cost	-	30
Decrease (increase) in notes and accounts receivable - trade	2,917,158	269,776
Decrease (increase) in inventories	(49,596)	(19,930)
Decrease (increase) in prepaid expenses	(16,831)	43,970
Increase (decrease) in notes and accounts payable - trade	(7,273)	55,272
Increase (decrease) in accounts payable - other	396,165	(12,114)
Increase (decrease) in accrued expenses	(325,680)	13,571
Increase (decrease) in advances received	(215,382)	(268,002)
Increase (decrease) in deposits received	(85,491)	348
Other, net	(283,089)	59,760
Subtotal	2,189,275	340,650
Interest and dividend income received	1,174	1,710
Income taxes paid	(732,402)	(2,766)
Net cash provided by (used in) operating activities	1,458,047	339,594
Cash flow from investing activities		
Purchase of investment securities	-	-
Purchase of property, plant and equipment	(4,623)	(263,195)
Purchase of intangible assets	(4,697)	(3,750)
Net cash provided by (used in) investing activities	(9,320)	(266,945)
Cash flow from financing activities		
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	-	6,569
Net cash provided by (used in) financing activities	-	6,569
Effect of exchange rate change on cash and cash equivalents	(4,637)	(9,640)
Net increase (decrease) in cash and cash equivalents	1,444,089	69,578
Cash and cash equivalents at beginning of period	6,853,150	6,986,722
Cash and cash equivalents at end of period	8,297,239	7,056,300

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.