Non-consolidated Financial Results for the Six Months Ended June 30, 2020 [Japanese GAAP]

August 6, 2020

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Scheduled starting date of dividend payments: —
Supplementary briefing materials on quarterly financial results: Yes
Explanatory meeting on quarterly financial results: Yes

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

1. Financial Results for the Six Months Ended June 30, 2020 (January 1, 2020 to June 30, 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	%
Six Months ended June 30, 2020	3,107	-	1,176	-	1,173	-	890	-
Six Months ended December 31, 2019	-	-	-	-	-	-	-	-

	Net income per share	Diluted net income per share
	Yen	Yen
Six Months ended June 30, 2020	7.09	6.86
Six Months ended December 31, 2019	-	-

(Note) PeptiDream has changed its fiscal-year end in fiscal 2019 from June 30 to December 31. As a result, the Company did not prepare financial statements for the six months ended December 31, 2019, the year-earlier period corresponding to the period under review. Therefore, the operating results for the six months ended December 31, 2019 and changes from the previous corresponding period are not presented.

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	19,763	17,613	88.7
As of December 31, 2019	17,817	16,978	94.8

(Reference) Equity As of June 30, 2020: 17,528 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	-	0.00			
Fiscal Year ending December 31, 2020 (forecast)			-	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 June 30, 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 June 30, 2020	193,652 shares	As of December 31, 2019	143,452 shares
3) Average number of shares during the period	Six months ended June 30, 2020	125,618,912 shares	Six months ended December 31, 2019	- 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, 193,600 shares as of June 30, 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, 152,974 shares for the six months ended June 30, 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 six months ended June 30, 2020 (from January 1, 2020 to June 30, 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】		Partnership Network 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 June 30, 2020, the Company's pipeline consisted of 114 discovery & development programs (representing a net increase of 3 programs from the end of the prior fiscal quarter ending March 31, 2020).

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 June 30, 2020
Peptide drugs	77
Small molecule drugs	
Peptide drug conjugates ("PDCs")	37
Total	114

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 March 31, 2020	As of June 30, 2020
Target Validation-to-Hit Stage	42	45
Hit-to-Lead Stage	47	46
Lead-to-GLP-Tox Stage	12	13
GLP-Tox-to-IND Stage	8	8
Phase I	2	2
Phase II	0	0
Phase III	0	0
Total	111	114

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; On May 12, 2020, the Company announced the achievement of a milestone from the second program in its macrocyclic peptide drug discovery alliance with Santen Pharmaceutical, for the identification of candidates meeting pre-defined criteria. The achievement entitled PeptiDream to receive an undisclosed payment per the drug discovery and development agreement between PeptiDream and Santen announced September 25, 2018. In addition to the achieved milestone, PeptiDream is eligible for future pre-clinical and clinical development milestones, as well as royalties on future sales on any products arising from the collaboration.

On May 27, 2020, the Company announced the expansion of its discovery alliance with Bayer. The expansion includes efforts

aimed at utilizing macrocyclic/constrained peptides in innovative diagnostics, radiological applications, and other new and novel applications/products imagined by Bayer. Such applications/products were not covered under the original therapeutic research collaboration and license agreement announced November 16, 2017. Under the current expansion, PeptiDream will use its proprietary Peptide Discovery Platform System (PDPS) technology to identify and optimize macrocyclic/constrained peptides suitable for use in the desired Bayer products, with Bayer having the right to develop and commercialize products resulting from the collaboration. PeptiDream will receive certain agreed upon funding and is eligible to receive future preclinical and clinical development milestones, as well as royalties on future sales, as the discovery and development programs advance. The new programs will run in parallel to the existing therapeutic programs ongoing between the companies.

On June 12, 2020, the Company announced an additional collaboration with Merck & Co., Inc to for the discovery and development of novel peptide therapeutics capable of neutralizing both the current SARS-CoV-2 virus (Coronavirus Disease "COVID19") and potential future Coronavirus ("CoV") outbreaks. Under this collaboration, the companies will focus their combined efforts on developing peptide therapeutics that may be effective against multiple coronavirus strains. The agreement builds on the original research collaboration and license agreement between both companies announced April 29, 2015. PeptiDream will receive an undisclosed upfront payment, as well as be eligible for payments associated with the achievement of certain preclinical, clinical, and regulatory milestones, as well as royalties on future sales of any products that arise from the collaboration.

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 June 30, 2020, 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.

On April 30, 2020, the Company announced the initiation of efforts toward the discovery and development of therapeutic peptides capable of neutralizing both the current SARS-CoV-2 virus (Coronavirus Disease "COVID19") and potentially any future Coronavirus ("CoV") outbreaks that may occur. PeptiDream aims to identify peptide candidates that address multiple modes/mechanisms of action ("MOA") and is taking a three-pronged approach to its COVID19 discovery efforts. In the first

approach, the Company is working to identify peptides that bind to the S2 region/subunit of the CoV spike protein, which is responsible for viral fusion with human cells, and block the conformation changes needed for viral entry. The attractiveness of this approach is that the S2 region of the SARS-CoV-2 spike protein is highly conserved across the CoV family, and therefore, such therapeutic peptides would most likely have broad CoV neutralizing activity and be effective against any future CoV outbreaks. The Company's is leveraging its prior expertise in this area, as the Company's anti-influenza peptide candidates broadly neutralize influenza virus entry via a similar MOA. In the second approach, the Company is looking for peptide candidates capable of binding to the S1 region/subunit of the CoV spike protein, which is the region that binds to ACE2 receptors expressed on the surface of human cells, which is the primary docking mechanism for the virus to make contact with human cells and start the entry process. Such candidates would in effect neutralize the virus by blocking its ability to attach to human cells, and thus their ability to enter human cells and further replicate. In the third approach, the Company is investigating a bifunctional/multifunctional peptide conjugate approach, in which identified peptide candidates that bind selectively to either the S1 or S2 regions of the CoV spike protein, are conjugated to a variety of other functional peptides, antiviral agents, or immune recruiting molecules, to both broadly neutralize and inhibit viral entry and alert the immune system to better combat/clear the virus. With this broad multi-strategy approach, there also is a real opportunity for synergistic/complementary antiviral activity through the combination of one or more of these agents, reducing the potential for viral drug resistance, while having broad spectrum antiviral activity that could be effective not only against the current SAR-CoV-2 pandemic, but also any future coronavirus pandemics that may occur. PeptiDream is currently in discussions with a number of potential discovery and development partners around these approaches and is considering/evaluating a number of business/strategic options.

The Company has previously announced strategic partnerships with eight 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, JSR Corporation, and Mitsubishi Corporation.

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™), and currently termed "KP1237 (ARM) + Autologous NK cells" and "KP1237 (ARM)" 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 (ARM) + Autologous NK cells" is a short acting ARM and intended for use in multiple myeloma ("MM") patients post-transplant. "KP1237 (ARM)" is a long acting ARM and intended for a larger market of multiple myeloma patients relapsed / refractory in Daratumumab therapy. 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 and Mitsubishi Corporation ("MC") established 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 is 60.5% owned 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 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. On June 22, 2020, the Company announced that it had been selected as an index constituent of the FTSE4Good Index Series and the FTSE Blossom Japan Index. Created by the global index and data provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indexes are used by a wide variety of market participants to create and assess responsible investment funds and other products. The FTSE Blossom Japan Index is designed as an industry neutral benchmark that reflects the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices in Japan. FTSE Russell evaluations are based on performance in areas such as Corporate Governance, Health & Safety, Anti-Corruption and Climate Change. Businesses included in the FTSE4Good Index Series and the FTSE Blossom Japan Index meet a variety of environmental, social and governance criteria.

As of June 30, 2020, the Company had a total of 137 employees (144 employees when including executive officers; approximately 40% of employees are women), representing an addition of 13 employee during the Q2 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 3,107,731 thousand yen, operating income of 1,176,449 thousand yen, ordinary income of 1.173.697 thousand yen, and net income of 890,363 thousand yen for the six months ended June 30, 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 in fiscal 2019 from June 30 to December 31. As a result, the Company did not prepare financial statements for the six months ended December 31, 2019, the year-earlier period corresponding to the period under review. Therefore, the analysis of status of cash flows above does not provide changes from the six months ended December 31, 2019.

(2) Explanation of Financial Position

1) Analysis of financial position

Total assets at the end of the second quarter ended June 30, 2020 increased by 1,945,817 thousand yen from the end of the previous fiscal year to 19,763,158 thousand yen. This was mainly because increased in shares of subsidiaries and associates of 391,445 thousand yen and increased in accounts receivable - trade of 1,315,836 thousand yen, respectively, despite a decrease of 58,343 thousand yen in prepaid expenses.

Liabilities increased by 1,310,637 thousand yen from the end of the previous fiscal year to 2,149,688 thousand yen. This was mainly because advances received and income taxes payable increased by 770,417 and 262,647 thousand yen.

Net assets increased by 635,180 thousand yen from the end of the previous fiscal year to 17,613,470 thousand yen. This was mainly because retained earnings by net income increased by 890,363 thousand yen, despite increased of 243,582 thousand yen in treasury shares.

2) Analysis of status of cash flows

Cash and cash equivalents for the six months ended June 30, 2020 increased by 337,615 thousand yen from the end of the previous fiscal year to 7,324,337 thousand yen.

Status of cash flows and related factors during the six months ended June 30, 2020 are described below.

(Cash flow from operating activities)

Cash flow from operating activities resulted in a cash inflow of 1,324,061 thousand yen. This was mainly due to the recording of income before income taxes of 1,173,697 thousand yen and an increase in advances received of 770,417 thousand yen, despite an increase in notes and accounts receivable - trade of 1,315,836 thousand yen.

(Cash flow from investing activities)

Cash flow from investing activities resulted in a cash outflow of 725,405 thousand yen. This was mainly due to purchase of shares of subsidiaries and associates of 391,445 thousand yen and purchase of property, plant and equipment of 399,969 thousand yen.

(Cash flow from financing activities)

Cash flow from financing activities resulted in a cash outflow of 237,013 thousand yen. This was mainly due to purchase of treasury shares of 243,582 thousand yen, despite 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 in fiscal 2019 from June 30 to December 31. As a result, the Company did not prepare financial statements for the six months ended December 31, 2019, the year-earlier period corresponding to the period under review. Therefore, the analysis of status of cash flows above does not provide changes from the six months ended December 31, 2019.

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

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 April 7, 2020, 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. Although the Company has returned to the normal business operation in June after the state of emergency was lifted on May 25, 2020, it has been continuing the utmost efforts to reduce the risk of corona virus infection for its employees, business partners and their families, by continuing to implement 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. While these implementations have slowed both partner and Company R&D operations over the past few weeks/months, thus far, the overall financial impact on the Company appears to be minimal. 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, a capital adequacy ratio of 88%, and cash and cash equivalents of 7,324 million yen (as of the end of June 2020), more than sufficient to maintain research and development activities, as well as investment in further business growth.

The Company's financial forecasts for the fiscal year ending December 31, 2020 remain unchanged from those announced on August 8, 2019. In the event that the Company becomes aware of any impact (COVID-19 or other) that would require a revision to the earnings forecasts, 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 six months ended June 30, 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/Jun	2020/Jan ~ 2020/Dec
Capital expenditures (million yen)	36	185	140	389	500
Depreciation expense (million yen)	128	501	246	277	533
Research and development expenses (million yen)	222	1,141	893	649	1,687
Year-end headcount (employees*)	96	120	123	137	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 June 30, 2020
Assets		
Current assets		
Cash and deposits	6,986,722	7,324,337
Accounts receivable - trade	312,492	1,628,329
Raw materials and stocks	341,316	403,591
Prepaid expenses	150,960	92,617
Other	248,306	165,671
Total current assets	8,039,797	9,614,547
Non-current assets		
Property, plant and equipment		
Buildings, net	3,683,377	3,614,008
Structures, net	160,232	154,973
Tools, furniture and fixtures, net	986,708	1,184,025
Land	904,628	904,628
Total property, plant and equipment	5,734,947	5,857,635
Intangible assets		
Goodwill	11,815	1,687
Software	102,151	89,103
Other	1,622	3,757
Total intangible assets	115,589	94,548
Investments and other assets		
Investment securities	1,295,598	1,277,398
Shares of subsidiaries and associates	1,900,000	2,291,445
Long-term loans receivable	95,839	92,719
Long-term loans receivable from subsidiaries and associates	-	62,805
Long-term prepaid expenses	16,977	34,032
Deferred tax assets	476,431	429,485
Other	142,158	8,541
Total investments and other assets	3,927,005	4,196,426
Total non-current assets	9,777,543	10,148,610
Total assets	17,817,340	19,763,158
Liabilities		
Current liabilities		
Accounts payable - trade	38,595	75,902
Accounts payable - other	127,138	111,217
Accrued expenses	70,854	226,311
Income taxes payable	22,729	285,377
Advances received	312,923	1,083,340
Deposits received	12,367	41,584
Other	93,930	165,444
Total current liabilities	678,540	1,989,177
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	2,149,688

(Thousands of yen)

	As of December 31, 2019	As of June 30, 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	10,378,865
Treasury stock	(411,570)	(655,153)
Total shareholders' equity	16,934,296	17,587,765
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(40,700)	(58,900)
Total valuation and translation adjustments	(40,700)	(58,900)
Subscription rights to shares	84,693	84,604
Total net assets	16,978,289	17,613,470
Total liabilities and net assets	17,817,340	19,763,158

(2) Quarterly Statements of Income

Six months ended June 30 2020

(Thousands of yen)

	Six months ended June 30, 2020
Net sales	3,107,731
Cost of sales	875,092
Gross profit	2,232,639
Selling, general and administrative expenses	1,056,189
Operating income	1,176,449
Non-operating income	
Interest income	1,812
Subsidies for employment adjustment	13,110
Other	1,101
Total non-operating income	16,024
Non-operating expenses	
Foreign exchange loss	14,616
Share issuance cost	30
Other	4,128
Total non-operating expenses	18,775
Ordinary income	1,173,697
Income before income taxes	1,173,697
Income taxes - current	236,387
Income taxes - deferred	46,946
Total income taxes	283,333
Net income	890,363

(3) Quarterly Statements of Cash Flows

(Thousands of yen)

	Six months ended June 30, 2020
Cash flow from operating activities	
Income (loss) before income taxes	1,173,697
Depreciation	277,916
Amortization of goodwill	10,128
Interest and dividend income	(1,812)
Foreign exchange losses (gains)	24,027
Share issuance cost	30
Decrease (increase) in notes and accounts receivable - trade	(1,315,836)
Decrease (increase) in inventories	(62,275)
Decrease (increase) in prepaid expenses	58,343
Increase (decrease) in notes and accounts payable - trade	37,306
Increase (decrease) in accounts payable - other	2,906
Increase (decrease) in accrued expenses	155,456
Increase (decrease) in advances received	770,417
Increase (decrease) in deposits received	29,217
Other, net	165,328
Subtotal	1,324,850
Interest and dividend income received	1,812
Income taxes paid	(2,766)
Income taxes refund	164
Net cash provided by (used in) operating activities	1,324,061
Cash flow from investing activities	
Purchase of shares of subsidiaries and associates	(391,445)
Loan advances to subsidiaries and associates	(62,805)
Collection of long-term loans receivable	1,040
Subsidies received	136,323
Purchase of property, plant and equipment	(399,969)
Purchase of intangible assets	(8,550)
Net cash provided by (used in) investing activities	(725,405)
Cash flow from financing activities	
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	6,569
Purchase of treasury shares	(243,582)
Net cash provided by (used in) financing activities	(237,013)
Effect of exchange rate change on cash and cash equivalents	(24,027)
Net increase (decrease) in cash and cash equivalents	337,615
Cash and cash equivalents at beginning of period	6,986,722
Cash and cash equivalents at end of period	7,324,337

(4) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

Not applicable.

(Notes in case of significant changes in equity)

Not applicable.