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August 12, 2021

## Summary of Consolidated Financial Results for the First Six Months of the Fiscal Year Ending December 31, 2021 (JGAAP)

**Listed company's name:** RaQualia Pharma Inc.  
**Listed on:** Tokyo Stock Exchange (TSE)  
**Stock code:** 4579  
**URL:** <https://www.raqualia.com/>  
**Representative:** Hirobumi Takeuchi, President and CEO  
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**Scheduled date of filing of quarterly securities report:** August 12, 2021  
**Scheduled date of dividend payment:** —  
**Supplementary documents for quarterly results:** Yes  
**Quarterly results briefing:** Yes

(Amounts are rounded down to the nearest million yen.)

### 1. Consolidated financial results for the first six months of the fiscal year ending December 31, 2021 (January 1, 2021 to June 30, 2021)

#### (1) Consolidated operating results (cumulative)

(Percentage figures represent changes from the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First six months ended June 30, 2021	1,320	254.3	314	—	432	—	302	—
June 30, 2020	372	(31.7)	(403)	—	(402)	—	(459)	—

Note: Comprehensive income Six months ended June 30, 2021: 331 million yen [-%]  
Six months ended June 30, 2020: (469) million yen [-%]

	Earnings per share (Basic)	Earnings per share (Diluted)
First six months ended June 30, 2021	14.45 yen	14.45 yen
June 30, 2020	(21.93)	—

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	million yen	million yen	%
June 30, 2021	4,768	4,342	90.8
December 31, 2020	4,251	4,011	94.1

Reference: Equity As of June 30, 2021: 4,331 million yen As of December 31, 2020: 3,999 million yen

### 2. Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended December 31, 2020	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2021	—	0.00			
Fiscal year ending December 31, 2021 (forecast)			—	0.00	0.00

Note: Revisions to the forecasts of dividends most recently announced: None

**3. Forecasts of consolidated financial results for the fiscal year ending December 31, 2021 (January 1, 2021 to December 31, 2021)**

(Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share (Basic)
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Fiscal year ending December 31, 2021	2,246	102.9	61	—	184	—	118	—	5.65

Note: Revisions to the forecasts of results most recently announced: None

\* As the Company conducts performance management on an annualized basis, forecasts of results over a six-month period are omitted.

**\* Notes**

- (1) Changes in significant subsidiaries during the first six months ended June 30, 2021 (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of special accounting for preparing quarterly consolidated financial statements: Yes

Note: For more details, please refer to the section of “(4) Notes to quarterly consolidated financial statements (Application of special accounting for preparing quarterly consolidated financial statements)” of “2. Quarterly consolidated financial statements and significant notes thereto” on page 8 of the attached material.

- (3) Changes in accounting policies, changes in accounting estimates, and restatements of prior financial statements
- a. Changes in accounting policies due to the revisions to accounting standards and other regulations: None
- b. Changes in accounting policies due to other reasons: Yes
- c. Changes in accounting estimates: None
- d. Restatements of prior financial statements: None

Note: For more details, please refer to the section of “(4) Notes to quarterly consolidated financial statements (Changes in accounting policies)” of “2. Quarterly consolidated financial statements and significant notes thereto” on page 8 of the attached material.

- (4) Number of issued shares (common shares)

- a. Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2021	20,951,642 shares
As of December 31, 2020	20,951,642 shares

- b. Total number of treasury shares at the end of the period

As of June 30, 2021	50 shares
As of December 31, 2020	50 shares

- c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

For the first six months ended June 30, 2021	20,951,592 shares
For the first six months ended June 30, 2020	20,950,454 shares

**\* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.**

**\* Appropriate use of financial forecasts and other special remarks**

(Caution concerning forward-looking statements)

Forward-looking statements provided in this document, including financial forecasts, are based on the information currently available to the Company and certain assumptions considered reasonable. Such statements are included without any guarantee as to their future achievement. Actual results, etc. may differ materially from the forecasts depending on various factors. For the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof, please refer to the section of “(3) Qualitative information regarding consolidated earnings forecasts” of “1. Qualitative information regarding settlement of accounts for the first six months” on page 3 of the attached material.

(Method of accessing supplementary documents for financial results and details of financial results briefing)

The Company plans to hold a financial results briefing on Friday, August 20, 2021.

The Company plans to post the documents used at the briefing on its website promptly after the briefing is held.

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## 1. Qualitative information regarding settlement of accounts for the first six months

### (1) Qualitative information regarding consolidated operating results

#### 1) Financial results

During the first six months ended June 30, 2021, although there were some companies with strong financial results in the manufacturing industry, the outlook for the Japanese economy continues to be difficult to forecast as financial results in non-manufacturing industries saw challenges in general, and personal consumption became polarized. In the pharmaceutical industry, although many companies are facing declining business performance due to COVID-19, initiatives have been active for the development of not only new mRNA vaccines and drugs for COVID-19 but also new drugs in general.

Under such conditions, the Group achieved the following financial results during the first six months.

The financial results of marketed drug products were as follows:

Regarding human drug products, the drug for gastro-esophageal reflux disease (tegoprazan/brand name: K-CAB<sup>®</sup>) licensed to HK inno.N Corporation (headquarters: Seoul, South Korea) saw a 52.5% decrease compared with the preceding half year due to seasonal fluctuations. However, strong sales were seen as in the previous fiscal year as sales increased by 28.7% year on year.

With regard to pet drug products, strong sales were seen in the EP4 antagonist (grapiprant/brand name: GALLIPRANT<sup>®</sup>) especially in the U.S., which was licensed to Elanco Animal Health Inc. (headquarters: Indiana, U.S.) and has been marketed as a drug for osteoarthritis in dogs. The sales in total recorded an increase of 4.9% compared with the preceding quarter. Meanwhile, the Ghrelin receptor agonist (capromorelin/brand name: ENTYCE<sup>®</sup>), which has an indication for anorexia management for dogs, saw an increase of 95.8% and recorded steady sales compared with the preceding quarter due to seasonal fluctuations.

Regarding licensed-out drug products, the retinoic acid receptor alpha agonist (Tamibarotene/TM-411/SY-1425) licensed to Syros Pharmaceuticals Inc. (headquarters: Massachusetts, U.S.) by the Company's consolidated subsidiary TMRC Co., Ltd. ("TMRC") was administered to the first subjects in the Phase III clinical trials in the U.S. in May 2021, and TMRC received a milestone payment.

As for collaborative research projects, collaborative research with ASKA Pharmaceutical Co., Ltd. is progressing steadily. In parallel, the Group has been promoting internal research projects to generate development candidate compounds.

Accordingly, operating results for the first six months, the reporting period, were as follows. Business revenue for the period was 1,320 million yen (up 254.3% year on year), operating profit totaled 314 million yen (compared with operating loss of 403 million yen a year earlier), ordinary profit totaled 432 million yen (compared with ordinary loss of 402 million yen a year earlier), and profit attributable to owners of parent was 302 million yen (compared with loss attributable to owners of parent of 459 million yen a year earlier).

Business revenue mainly consists of milestone income of 748 million yen (compared with – million yen a year earlier) and sales royalty income of 488 million yen (up 45.4% year on year). On the other hand, total business expenses were 1,005 million yen (up 29.6% year on year). This total mainly consists of cost of business revenue (174 million yen, a 201.8% increase from the same period of the previous fiscal year), research and development expenses (496 million yen, a 10.2% increase from the same period of the previous fiscal year) and other selling, general and administrative expenses (334 million yen, a 24.9% increase from the same period of the previous fiscal year). A main reason for an increase of other selling, general and administrative expenses is that cost for the Ordinary General Meeting of Shareholders associated with shareholder proposals was 60 million yen, more than double that of ordinary years.

#### 2) Research and development activities

Research and development expenses of the entire Group during the first six months were 496 million yen. For the first six months, there were no material changes to the research and development activities.

## **(2) Qualitative information regarding consolidated financial position**

### **1) Analysis of assets, liabilities and net assets**

#### Assets

Total assets as of June 30, 2021 were 4,768 million yen, an increase of 517 million yen (up 12.2%) from the end of the previous fiscal year. This is mainly attributable to an increase in cash and deposits of 631 million yen and a decrease in securities of 179 million yen.

#### Liabilities

Total liabilities as of June 30, 2021 were 425 million yen, an increase of 185 million yen (up 77.2%) from the end of the previous fiscal year. This is mainly attributable to an increase in accounts payable - other of 83 million yen and an increase in income taxes payable of 85 million yen.

#### Net assets

Total net assets as of June 30, 2021 were 4,342 million yen, an increase of 331 million yen (up 8.3%) from the end of the previous fiscal year. This is mainly attributable to the recording of profit attributable to owners of parent of 302 million yen and an increase in valuation difference on available-for-sale securities of 28 million yen.

Consequently, the equity ratio was 90.8% (down 3.3 percentage points from the end of the previous fiscal year).

### **2) Analysis of cash flows**

The balance of cash and cash equivalents (“net cash”) as of June 30, 2021 amounted to 2,133 million yen (compared with 2,152 million yen a year earlier), an increase of 71 million yen (up 3.5%) from the end of the previous fiscal year.

The respective cash flows in the first six months and the factors thereof are as follows.

#### Cash flows from operating activities

Net cash provided by operating activities was 368 million yen (compared with net cash of 35 million yen used a year earlier). This is mainly attributable to the recording of profit before income taxes of 436 million yen and depreciation of 67 million yen, a cash inflow from a decrease in trade receivables of 89 million yen, and a cash outflow from an increase in prepaid expenses of 142 million yen.

#### Cash flows from investing activities

Net cash used in investing activities was 372 million yen (compared with net cash of 9 million yen provided a year earlier). This is mainly attributable to payments into time deposits of 207 million yen, purchase of securities of 100 million yen, purchase of investment securities of 100 million yen, and proceeds from sales of investment securities of 110 million yen.

#### Cash flows from financing activities

Net cash used in financing activities was 5 million yen (compared with net cash of 0 million yen used a year earlier). This is mainly attributable to repayments of lease obligations of 5 million yen.

### **(3) Qualitative information regarding consolidated earnings forecasts**

There are no changes to the consolidated earnings forecasts for the fiscal year ending December 31, 2021, announced in “Notice Concerning Revision to Full-Year FY12/21 Consolidated Earnings Forecast” on June 30, 2021.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	1,394,128	2,025,936
Accounts receivable - trade	530,818	441,003
Securities	719,418	539,970
Work in process	-	1,050
Supplies	6,540	13,775
Advance payments - trade	36,412	48,448
Prepaid expenses	50,243	192,917
Other	96,671	17,828
Total current assets	2,834,232	3,280,930
Non-current assets		
Property, plant and equipment		
Buildings, net	78,501	74,957
Tools, furniture and fixtures, net	208,278	216,180
Leased assets, net	46,187	42,058
Total property, plant and equipment	332,967	333,197
Intangible assets		
Trademark right	4,439	4,235
Software	27,927	31,937
Other	639	639
Total intangible assets	33,005	36,812
Investments and other assets		
Investment securities	1,037,601	1,104,174
Long-term prepaid expenses	10	205
Deferred tax assets	2,959	2,959
Other	10,457	10,055
Total investments and other assets	1,051,029	1,117,394
Total non-current assets	1,417,002	1,487,404
Total assets	4,251,235	4,768,335

(Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	41,830	46,979
Lease obligations	18,281	17,394
Accounts payable - other	52,666	136,380
Accrued expenses	49,868	49,502
Income taxes payable	20,882	106,228
Deposits received	3,133	5,804
Other	–	9,206
Total current liabilities	186,662	371,496
Non-current liabilities		
Lease obligations	27,238	22,171
Asset retirement obligations	12,031	12,080
Deferred tax liabilities	14,173	19,660
Total non-current liabilities	53,443	53,911
Total liabilities	240,106	425,407
<b>Net assets</b>		
Shareholders' equity		
Share capital	2,255,401	2,255,401
Capital surplus	2,445,184	2,445,184
Retained earnings	(706,157)	(403,329)
Treasury shares	(21)	(21)
Total shareholders' equity	3,994,407	4,297,235
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,809	33,779
Total accumulated other comprehensive income	4,809	33,779
Share acquisition rights	11,912	11,912
Total net assets	4,011,129	4,342,927
Total liabilities and net assets	4,251,235	4,768,335



**(2) Consolidated statement of income and consolidated statement of comprehensive income**  
**Consolidated statement of income (cumulative)**

(Thousands of yen)

	First six months ended June 30, 2020	First six months ended June 30, 2021
Business revenue	372,737	1,320,666
Business expenses		
Cost of business revenue	57,914	174,812
Research and development expenses	450,656	496,527
Other selling, general and administrative expenses	267,662	334,349
Total business expenses	776,233	1,005,690
Operating profit (loss)	(403,495)	314,976
Non-operating income		
Interest income	3,160	642
Interest on securities	16,142	10,419
Foreign exchange gains	–	110,135
Subsidy income	1,500	5,785
Gain on valuation of compound financial instruments	3,800	–
Other	502	2,785
Total non-operating income	25,105	129,768
Non-operating expenses		
Interest expenses	–	665
Foreign exchange losses	24,183	–
Share issuance costs	78	–
Loss on valuation of compound financial instruments	–	1,510
Settlement package	–	9,600
Other	0	–
Total non-operating expenses	24,261	11,775
Ordinary profit (loss)	(402,652)	432,969
Extraordinary income		
Gain on sales of investment securities	6,441	3,382
Gain on sales of non-current assets	750	–
Total extraordinary income	7,191	3,382
Profit (loss) before income taxes	(395,461)	436,352
Income taxes	63,999	133,523
Profit (loss)	(459,460)	302,828
Profit attributable to non-controlling interests	–	–
Profit (loss) attributable to owners of parent	(459,460)	302,828

**Consolidated statement of comprehensive income (cumulative)**

(Thousands of yen)

	First six months ended June 30, 2020	First six months ended June 30, 2021
Profit (loss)	(459,460)	302,828
Other comprehensive income		
Valuation difference on available-for-sale securities	(10,270)	28,969
Total other comprehensive income	(10,270)	28,969
Comprehensive income	(469,731)	331,798
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(469,731)	331,798
Comprehensive income attributable to non-controlling interests	–	–

**(3) Consolidated statement of cash flows**

(Thousands of yen)

	First six months ended June 30, 2020	First six months ended June 30, 2021
<b>Cash flows from operating activities</b>		
Profit (loss) before income taxes	(395,461)	436,352
Depreciation	53,781	67,071
Interest income	(3,160)	(642)
Interest income on securities	(16,142)	(10,419)
Foreign exchange losses (gains)	20,617	(95,962)
Subsidy income	(1,500)	(5,785)
Loss (gain) on valuation of compound financial instruments	(3,800)	1,510
Interest expenses	-	665
Share issuance costs	78	-
Settlement package	-	9,600
Loss (gain) on sales of investment securities	(6,441)	(3,382)
Loss (gain) on sales of non-current assets	(750)	-
Decrease (increase) in trade receivables	497,672	89,815
Decrease (increase) in inventories	535	(8,285)
Increase (decrease) in trade payables	(1,034)	5,149
Decrease (increase) in advance payments - trade	(578)	(12,036)
Decrease (increase) in prepaid expenses	(102,233)	(142,674)
Increase (decrease) in accounts payable - other	(21,576)	(10,584)
Decrease (increase) in consumption taxes refund receivable	(15,111)	66,696
Other, net	6,233	25,133
Subtotal	11,128	412,220
Interest and dividends received	21,041	10,509
Interest paid	-	(665)
Subsidies received	1,500	5,785
Income taxes paid	(69,207)	(49,910)
Settlement package paid	-	(9,600)
Net cash provided by (used in) operating activities	(35,537)	368,338
<b>Cash flows from investing activities</b>		
Payments into time deposits	-	(207,380)
Purchase of securities	-	(100,000)
Purchase of property, plant and equipment	(49,799)	(63,088)
Proceeds from sales of property, plant and equipment	750	-
Purchase of intangible assets	(2,828)	(12,398)
Purchase of investment securities	(106,933)	(100,649)
Proceeds from sales of investment securities	168,309	110,923
Other, net	185	-
Net cash provided by (used in) investing activities	9,683	(372,592)
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	-	10,000
Repayments of short-term borrowings	-	(10,000)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	110	-
Repayments of lease obligations	(370)	(5,953)
Net cash provided by (used in) financing activities	(260)	(5,953)
Effect of exchange rate change on cash and cash equivalents	(21,237)	82,132
Net increase (decrease) in cash and cash equivalents	(47,353)	71,925
Cash and cash equivalents at beginning of period	2,200,206	2,061,316
Cash and cash equivalents at end of period	2,152,853	2,133,241

#### **(4) Notes to quarterly consolidated financial statements**

##### **Notes on premise of going concern**

No items to report.

##### **Notes on significant changes in the amount of shareholders' equity**

No items to report.

##### **Application of special accounting for preparing quarterly consolidated financial statements**

(Calculation of tax expenses)

Tax expenses are calculated by multiplying the profit before income taxes by the reasonably estimated effective tax rates after the application of tax effect accounting to the profit before income taxes for the fiscal year including the quarter under review. Income taxes is the amount inclusive of income taxes - deferred.

##### **Changes in accounting policies**

(Change in methodology for calculating tax expenses)

Tax expenses were calculated in the same method as that used in year-end closing of accounts. However, the Company has adopted the consolidated tax payment system starting from the first quarter ended March 31, 2021, aiming to perform quarterly closing of accounts quickly and efficiently. Accordingly, the calculation method has been changed starting from the first quarter ended March 31, 2021. With the changed calculation method, tax expenses are calculated by multiplying the profit before income taxes for the quarter by the reasonably estimated effective tax rates after the application of tax effect accounting to the profit before income taxes for the fiscal year.

As the effect of this change on quarterly consolidated financial statements is immaterial, no retrospective application has been performed.

##### **Additional information**

(Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system)

As for items regarding the transition to the group tax sharing system introduced in the "Act Partially Amending the Income Tax Act" (Act No. 8 of 2020) and items revised on non-consolidated taxation system in connection with the transition to the group tax sharing system, the Company and its consolidated subsidiaries have not applied the provisions of paragraph 44 of the "Guidance on Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) as allowed by the provisions of paragraph 3 of the "Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No. 39, March 31, 2020). Accordingly, amounts of deferred tax assets and deferred tax liabilities are determined in accordance with the provisions of the tax law before revision.

(Accounting estimates amid the spread of COVID-19)

The Group has determined the accounting estimates for impairment accounting of non-current assets, etc. based on information available when preparing the consolidated financial statements. The effects of the spread of COVID-19 on the Group are limited at the present time and the Group has determined that there will not be a significant impact on the estimates for the fiscal year under review.

##### **Segment information, etc.**

[Segment information]

- I. For the first six months ended June 30, 2020 (January 1, 2020 to June 30, 2020)  
This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.
- II. For the first six months ended June 30, 2021 (January 1, 2021 to June 30, 2021)  
This information is omitted because the Group consists of a single business segment dealing with research and development of pharmaceutical and related businesses.

## Significant subsequent event

(Granting of restricted stock units)

The Company resolved at the Board of Directors meeting held on August 12, 2021 to introduce a plan for granting restricted stock units (the “Plan”) to the Company’s employees as an incentive plan for the employees.

### 1. Purposes for introducing the Plan

The Company introduced the Plan for employees of the Company and the Company’s subsidiaries in order to provide them with an incentive to sustainably increase the Company’s corporate value and to promote further shared value with the shareholders.

### 2. Overview of the Plan

#### (1) Overview of the Plan

Under the Plan, on condition that the employees of the Company and the Company’s subsidiaries have met certain conditions, including serving as employees of the Company or the Company’s subsidiaries during the three-year calculation period (the “Calculation Period”), common shares of the Company (the “Company’s Shares”) and money, which is to be used as the funds for paying taxes related to the shares granted by the Company, are granted to the employees upon the expiration of the relevant Calculation Period.

#### (2) Eligible persons

The persons eligible for the Plan shall be employees specified by the Company in advance (the “Eligible Employees”).

#### (3) Granting of shares and payment of money

The Company shall grant, to Eligible Employees who serve as employees of the Company or the Company’s subsidiaries on the final business day of the Calculation Period, an amount of monetary claims, which is calculated by multiplying the number of the Company’s Shares to be issued or disposed of for the Eligible Employees based on the resolution of the Company’s Board of Directors by the amount to be paid in per share for the shares and issue or dispose of the shares in exchange for in-kind contribution of the monetary claims.

The amount to be paid in per share for the Company’s Shares to be issued or disposed of under the Plan shall be determined based on the closing price of the Company’s common shares on the Tokyo Stock Exchange on the business day immediately preceding the date of the resolution of the Board of Directors (if no transaction is made on such business day, the closing price on the closest preceding trading day) and shall not be particularly advantageous to Eligible Employees.

Furthermore, to ensure the funds for paying taxes related to the granting of the Company’s Shares, the Company shall provide money to the Eligible Employees as the portion of monetary payments, in addition to the monetary claims related to the granting of the shares.

#### (4) Maximum number of the Company’s Shares to be granted to Eligible Employees

The maximum number of the Company’s common shares to be granted to Eligible Employees under the Plan shall be 150,000 shares for each Calculation Period. If the total number of issued shares of the Company increases or decreases as a result of a share consolidation, share split, etc., the Company shall adjust the maximum number by multiplying it by the ratio of the consolidation, split, etc.

#### (5) Maximum amount to be paid under the Plan

The total amount of monetary claims and money provided by the Company to Eligible Employees for use as in-kind contribution under the Plan shall not exceed 20 million yen for each Calculation Period.

#### (6) Treatment in the event that reorganization, etc. occurs or other circumstances arise

If matters relating to a merger agreement under which the Company is the disappearing company, a share exchange agreement or share transfer plan under which the Company becomes a wholly owned subsidiary, or other reorganization, etc. are approved at the Company’s General Meeting of Shareholders, or in the event that other circumstances specified by the Company arise, the Company shall grant money, etc. for a reasonably determined number.