

Consolidated Financial Results for the Third Quarter of the Year Ending December 31, 2016 (Nine Months Ended September 30, 2016)

[Japanese GAAP]

November 7, 2016

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 Scheduled submission of Quarterly Report: November 8, 2016
 Scheduled date of dividend payment: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Nine Months of the Year Ending December 31, 2016 (January 1, 2016 to September 30, 2016)

(1) Consolidated results of operations (Percentages show changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended Sep. 30, 2016	581	(54.5)	(334)	—	(352)	—	(178)	—
Nine months ended Sep. 30, 2015	1,277	177.3	584	—	605	—	572	—

Note: Comprehensive income Nine months ended Sep. 30, 2016: (302) million yen (— %)

Nine months ended Sep. 30, 2015: 584 million yen (— %)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Sep. 30, 2016	(19.52)	—
Nine months ended Sep. 30, 2015	66.53	63.69

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2016	2,658	1,841	69.1
As of Dec. 31, 2015	2,337	1,870	79.7

Reference: Shareholders' equity As of Sep. 30, 2016: 1,836 million yen As of Dec. 31, 2015: 1,862 million yen

2. Dividends

	Dividend per share				
	End of 1 st quarter	End of 2 nd quarter	End of 3 rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2015	—	0.00	—	0.00	0.00
FY2016	—	0.00	—	—	—
FY2016 (Forecast)	—	—	—	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Financial Forecast for the Year Ending December 31, 2016 (January 1, 2016 to December 31, 2016)

The Group has not announced its consolidated financial forecast for FY2016 as disclosure of earnings estimates for the Drug Discovery and Development business may inhibit out-licensing activities of this business, preventing maximization of value. Therefore, the Group discloses a forecast for the Drug Discovery Support business only (Net Sales 858 million yen (10.0% year-on-year decrease), Operating Income 320 million yen (22.4% year-on-year decrease)). The forecast has not been revised since last announcement.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None
- (2) Application of special accounting methods for presenting quarterly consolidated financial statements: None
- (3) Changes in accounting policies, accounting-based estimates, and restatements
- 1) Changes in accounting policies due to revisions in accounting standards, others: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Restatements: None
- (4) Number of shares outstanding (common stock)
- 1) Number of shares outstanding at the end of the period (including treasury stock)
As of Sep. 30, 2016: 9,237,400 shares As of Dec. 31, 2015: 8,892,700 shares
 - 2) Number of treasury stock at the end of the period
As of Sep. 30, 2016: – shares As of Dec. 31, 2015: – shares
 - 3) Average number of shares outstanding during the period
Nine months ended Sep. 30, 2016: 9,137,119 shares Nine months ended Sep. 30, 2015: 8,602,442 shares

*** Information regarding the implementation of quarterly review procedures**

The current quarterly financial report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the review procedures based on the Financial Instruments and Exchange Act for the quarterly financial statements have been completed.

*** Note to ensure appropriate use of forecasts and other remarks**

The forecasts and other forward-looking statements in this document are based on the information currently available to the management and on certain assumptions considered by the management to be reasonable. Actual operating results may differ significantly from these statements for various factors. For details of the assumptions used in the forecast of financial results and a cautionary note concerning appropriate use, please refer to “(3) Consolidated Forecast and Other Forward-looking Statements” on page 3.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Analysis of Operating Results

In the first nine months of 2016, the outlook of the global economy remained unclear due to concerns over Brexit issue and slow down of the Chinese economy while labor market strengthened in the U.S. and the European economy held firm. In Japan, the economy remained at a standstill while employment situation showed a trend toward improvement.

In the pharmaceutical industry, mega pharma companies are actively in-licensing pipelines from biotech companies to develop next-generation blockbuster drugs while major drugs are being replaced by generic drugs due to patent expiration and “Open Innovation” is becoming mainstream of drug discovery. Such trend led to a successful conclusion of a license agreement for worldwide rights to develop and commercialize drug candidate compounds developed by the Company.

In this environment, the Group has developed the Drug Discovery Support business and the Drug Discovery and Development business to expand the business, leveraging its drug discovery platform technologies involving kinase inhibitors as a core technology.

In the nine months ended September 30, 2016, the Company entered into an exclusive license agreement with ProNAi Therapeutics, Inc. (ProNAi) to grant ProNAi rights to develop and commercialize cancer drug candidate compounds (AS-141), a small molecule kinase inhibitor targeting CDC7, and transferred the related technical data to ProNAi. In addition, the Group has actively conducted research and development of kinase inhibitors mainly in its core therapeutic areas including cancer and autoimmune diseases. Furthermore, leveraging its drug discovery platform technologies, the Group enhanced the range of its new kinase products including lipid kinases launched in July and other kinases. In the Drug Discovery Support business, the Group has strengthened technical support to leading biotech companies and major pharmaceutical companies in order to expand its market shares in North America and Europe, two primary markets for the Group, while working to secure new contracts for large-scale kinase screening services from pharmaceutical companies both in Japan and overseas.

As a result, in the nine months ended September 30, 2016, the Group recorded net sales of 581 million yen (54.5% year-on-year decrease), an operating loss of 334 million yen (compared with operating income of 584 million yen in the same period of FY2015), an ordinary loss of 352 million yen (compared with ordinary income of 605 million yen in the same period of FY2015), and a loss attributable to owners of parent of 178 million yen (compared with profit attributable to owners of parent of 572 million yen in the same period of FY2015).

Results by business segment are as follows.

(a) Drug Discovery Support business

By providing kinase proteins, assay development, profiling and screening services, and cell-based assay services, sales of the Drug Discovery Support business decreased 27.2% to 482 million yen and operating income decreased 68.1% to 98 million yen. By region, sales in Japan decreased 27.5% to 286 million yen, sales in North America decreased 29.6% to 134 million yen, sales in Europe decreased 24.0% to 47 million yen, and sales in other regions increased 1.6% to 14 million yen.

(b) Drug Discovery and Development business

In the Drug Discovery and Development business, the Company transferred the related technical data of the out-licensed CDC7 kinase inhibitor program to ProNAi and provided technical support so that the pre-clinical trials of ProNAi would be conducted smoothly. In addition, the Group has actively conducted research and development to discover innovative kinase inhibitors. As a result, in the nine months ended September 30, 2016, sales of this segment were 98 million yen (compared with 614 million in the same period of FY2015) and operating loss was 432 million yen (compared with an operating income of 277 million in the same period of 2015).

(2) Analysis of Financial Position

(Millions of yen)

	FY2015 (As of Dec. 31, 2015)	Third quarter of FY2016 (As of Sep. 30, 2016)	Change
Total assets	2,337	2,658	+320
Net assets	1,870	1,841	-28
Equity ratio (%)	79.7	69.1	-10.6

As of the end of the third quarter of FY2016, total assets increased by 320 million yen from the end of FY2015 to 2,658 million yen, mainly due to an increase of 688 million yen in cash and deposits and decreases of 113 million yen in accounts receivable-trade and 273 million yen in investment securities.

Total liabilities increased 349 million yen to 816 million yen, mainly due to an increase of 76 million yen in current portion of long-term loans payable, a decrease of 30 million yen in accounts payable-other, a decrease of income taxes payable of 38 million yen, an increase of bonds payable of 172 million yen, and an increase of 242 million yen in long-term loans payable.

Net assets decreased 28 million yen to 1,841 million yen, mainly due to 178 million yen of loss attributable to owners of parent, an increase of 141 million yen in capital stock, an increase of 141 million yen in capital surplus, and a decrease of 114 million yen of valuation difference on available-for-sale securities.

Shareholders' equity ratio was 69.1 % (compared with 79.7% at the end of FY2015).

(3) Consolidated Financial Forecast and Other Forward-looking Statements

The Company maintains its financial forecast for the Drug Discovery Support business presented in the Consolidated Financial Results for the Year Ended December 31, 2015 (Japanese GAAP) that was announced on February 12, 2016.

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

Not applicable.

(2) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

Not applicable.

(3) Changes in Accounting Policies, Accounting Estimates, and Restatements

(Change in Accounting Policies)

Application of the Accounting Standards for Business Combinations

The Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013), etc. from the first quarter of 2016. Accordingly, difference arising from changes in the Company’s ownership interests in subsidiaries in cases where control is retained is recognized in capital surplus, and the acquisition costs in connection with business combinations are recognized as expenses in the fiscal year in which they arise. Regarding business combinations that take place on or after the beginning of the first quarter of 2016, the Company has revised the method to reflect reviewed allocation of the acquisition costs arising from determination of the provisional accounting treatment on the quarterly consolidated financial statements to which the date of the business combination belongs.

In addition, the presentation of net income and other items has been revised. For consistency with these changes, the consolidated financial statements for the first nine months of 2015 have been revised.

The Company has adopted these accounting standards, etc. from the beginning of the first quarter of 2016, in accordance with the transitional accounting treatments set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures.

There is no impact on the quarterly consolidated financial statements for the first nine months of 2016.

Change in depreciation method

Following the revision of the Corporation Tax Act, the Company has adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the second quarter of 2016, and changed the method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

There is no impact on the quarterly consolidated financial statements in the first nine months of 2016.

3. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY2015 (As of Dec. 31, 2015)	Third quarter of FY2016 (As of Sep. 30, 2016)
Assets		
Current assets		
Cash and deposits	1,624,941	2,313,447
Accounts receivable-trade	191,740	78,263
Merchandise and finished goods	91,445	80,683
Work in process	7,459	15,365
Raw materials and supplies	26,415	27,939
Other	53,788	63,594
Total current assets	1,995,790	2,579,292
Non-current assets		
Property, plant and equipment	37,251	40,032
Intangible assets	1,451	895
Investments and other assets	303,115	38,269
Total non-current assets	341,819	79,196
Total assets	2,337,609	2,658,489
Liabilities		
Current liabilities		
Accounts payable-trade	15,466	208
Current portion of bonds	—	28,000
Current portion of long-term loans payable	65,344	142,260
Accounts payable-other	69,531	38,825
Income taxes payable	38,767	138
Other	46,882	15,593
Total current liabilities	235,992	225,026
Non-current liabilities		
Bonds payable	—	172,000
Long-term loans payable	148,273	391,024
Asset retirement obligations	25,168	25,544
Other	57,673	3,173
Total non-current liabilities	231,115	591,741
Total liabilities	467,107	816,768
Net assets		
Shareholders' equity		
Capital stock	2,900,784	3,041,965
Deposit for subscriptions to shares	5,946	—
Capital surplus	1,718,888	1,860,034
Retained earnings	(2,879,693)	(3,058,027)
Total shareholders' equity	1,745,925	1,843,972
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	114,484	472
Deferred gains or losses on hedges	(1,696)	—
Foreign currency translation adjustment	3,848	(7,577)
Total accumulated other comprehensive income	116,637	(7,104)
Subscription rights to shares	7,940	4,853
Total net assets	1,870,502	1,841,720
Total liabilities and net assets	2,337,609	2,658,489

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(For the Nine-month Period)**

	(Thousands of yen)	
	First nine months of FY2015 (Jan. 1, 2015 – Sep. 30, 2015)	First nine months of FY2016 (Jan. 1, 2016 – Sep. 30, 2016)
Net sales	1,277,146	581,214
Cost of sales	165,789	190,069
Gross profit	1,111,357	391,145
Selling, general and administrative expenses	527,056	725,571
Operating income (loss)	584,300	(334,426)
Non-operating income		
Interest income	135	109
Subsidy income	29,240	8,692
Other	1,650	932
Total non-operating income	31,026	9,734
Non-operating expenses		
Interest expenses	1,467	3,648
Bond issuance cost	—	2,617
Share issuance cost	2,304	1,393
Foreign exchange losses	3,864	19,198
Other	2,235	879
Total non-operating expenses	9,871	27,736
Ordinary income (loss)	605,455	(352,428)
Extraordinary income		
Gain on sales of investment securities	—	177,543
Gain on reversal of subscription rights to shares	2,282	—
Total extraordinary income	2,282	177,543
Extraordinary losses		
Impairment loss	—	1,720
Total extraordinary losses	—	1,720
Profit (loss) before income taxes	607,738	(176,605)
Income taxes-current	35,892	2,014
Income taxes-deferred	(475)	(286)
Total income taxes	35,417	1,728
Profit (loss)	572,320	(178,334)
Profit (loss) attributable to owners of parent	572,320	(178,334)

Quarterly Consolidated Statement of Comprehensive Income**(For the Nine-month Period)**

	(Thousands of yen)	
	First nine months of FY2015 (Jan. 1, 2015 – Sep. 30, 2015)	First nine months of FY2016 (Jan. 1, 2016 – Sep. 30, 2016)
Profit (loss)	572,320	(178,334)
Other comprehensive income		
Valuation difference on available-for-sale securities	17,097	(114,012)
Deferred gains or losses on hedges	(3,410)	1,696
Foreign currency translation adjustment	(1,408)	(11,425)
Total other comprehensive income	12,278	(123,741)
Comprehensive income	584,599	(302,076)
Comprehensive income attributable to:		
Owners of parent	584,599	(302,076)

(3) Notes to Quarterly Consolidated Financial Statements**(Going Concern Assumption)**

Not applicable.

(Significant Changes in Shareholders' Equity)

First nine months of FY2015 (Jan. 1, 2015 – Sep. 30, 2015)

Following the exercise of subscription rights to shares, capital stock and capital surplus increased 271,084 thousand yen and 271,034 thousand yen, respectively, during the first nine months of FY2015, to 2,898,155 thousand yen and 1,716,264 thousand yen at the end of the first nine months of FY2015.

First nine months of FY2016 (Jan. 1, 2016 – Sep. 30, 2016)

Following the exercise of subscription rights to shares, capital stock and capital surplus increased 141,181 thousand yen and 141,145 thousand yen, respectively, during the first nine months of FY2016, to 3,041,965 thousand yen and 1,860,034 thousand yen at the end of the first nine months of FY2016.

(Segment and Other Information)

Segment Information

I. First nine months of FY2015 (Jan. 1, 2015 – Sep. 30, 2015)

Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Reportable segment		
	Drug Discovery Support	Drug Discovery and Development	Total
Net sales			
External sales	662,296	614,580	1,277,146
Intersegment sales or transfers	—	—	—
Total	662,296	614,580	1,277,146
Segment profit	307,268	277,032	584,300

Note: Total segment profit is consistent with operating income shown on the quarterly consolidated statement of income.

II. First nine months of FY2016 (Jan. 1, 2016 – Sep. 30, 2016)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Reportable segment		
	Drug Discovery Support	Drug Discovery and Development	Total
Net sales			
External sales	482,286	98,828	581,214
Intersegment sales or transfers	—	—	—
Total	482,286	98,828	581,214
Segment profit (loss)	98,021	(432,447)	(334,426)

Note: Total segment profit (loss) is consistent with operating loss shown on the quarterly consolidated statement of income.

2. Information related to impairment loss on non-current assets, goodwill, etc. for each reportable segment

An impairment loss of 1,720 thousand yen was booked in the Drug Discovery and Development business in the first nine months of FY2016.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.