

Financial Results

FY2017 Q3

(January to September 2017)

Carna Biosciences, Inc.



Stock Code : 4572

- Issued Series 16 and 17 subscription rights to shares in July.
- To expand our service business portfolio, Carna started providing microbiome profiling services of EpiBiome, our research collaboration partner, in August.
- IP Australia granted a patent for CDC7 inhibitor in September.

Since October

- **Revised full-year forecast.**

Series	Status of exercise up to the end of October 2017
Series 16 Subscription Rights to Shares	Cumulative 226,000 shares, equivalent to 24.3% of total Series 16, have been issued with cumulative exercise price of JPY287,010,000.
Series 17 Subscription Rights to Shares	No exercise.

Q3 Consolidated Financial Results



- ✓ Although sales of the drug discovery support business increased slightly from the previous year, total sales decreased 16.8% YoY (decreased 97 million yen YoY) due to the initial upfront payment recorded in the same period last year.
- ✓ Operating loss was 477 million yen and deteriorated by 142 million yen YoY mainly due to an increase in R&D expenses and lack of initial upfront payment recorded in the same period last year.
- ✓ Net loss deteriorated by 329 million yen yoy due to extraordinary income (gain on sales of investment securities) recorded in in the same period last year.

(Millions of yen)

	Net Sales	Operating Loss	Ordinary Loss	Net Loss
FY2017 Q3 (Jan.- Sep. 2017) (a)	483	(477)	(486)	(508)
FY2016 Q3 (Jan.- Sep. 2016) (b)	581	(334)	(352)	(178)
YoY change (c)=(a)-(b)	-97	-142	-133	-329
YoY change % (d)=(c)/(b)	-16.8%	—	—	—

Note 1: Rounded down to the nearest million yen.

Note 2: YoY change % for Operating Loss, Ordinary Loss, and Net Loss are not presented since losses were recorded.

Q3 Results by Business Segment

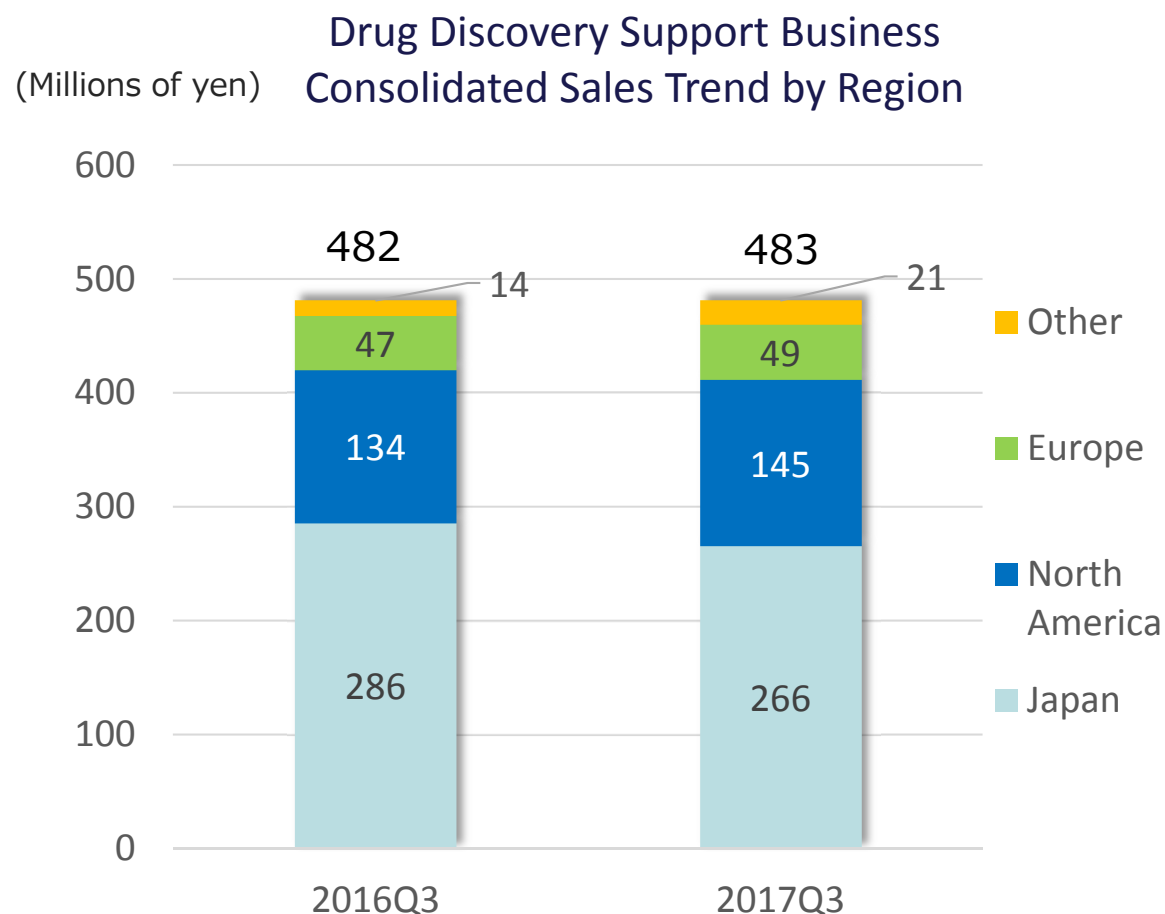


(Millions of yen)

	Net Sales			Operating Profit (Loss)		
	Drug Discovery Support	Drug Discovery & Development	Total	Drug Discovery Support	Drug Discovery & Development	Total
FY2017 Q3 (a)	483	—	483	99	(576)	(477)
FY2016 Q3 (b)	482	98	581	98	(432)	(334)
YoY change (c)=(a)-(b)	1	-98	-97	-1	-144	-142
YoY change (%) (d)=(c)/(b)	0.2%	—	-16.8%	1.3%	—	—

Note 1: Rounded down to the nearest million yen

Note 2: YoY change % and progress rate are not presented for consolidated operating loss and operating loss at the Drug Discovery and Development business since losses were recorded.



- Japan: Decreased 7.0% yoy. Sales from Ono Pharmaceutical were 117 million yen, down 31 million yen from 148 million yen in Q3 2016.
- North America: Increased 8.4% yoy. Kinase proteins, profiling service, and cell-based assay service were robust.
- Europe: Increased 5.6% yoy. Kinase proteins were robust.
- Other region: Increased 50.4% yoy. Kinase proteins and cell-based assay service were robust.

Consolidated Balance Sheet



(millions of yen)

	As of Sep. 30, 2017	As of Dec 31, 2016	Change	Reason for changes
Current assets	2,217	2,492	-275	
Cash and deposits	1,945	2,161	-215	
Other	271	331	-59	Accounts receivable-trade -28
Non-current Assets	58	73	-14	
Total assets	2,276	2,566	-290	
Current liabilities	254	271	-17	Account payable-other -18
Non-current liabilities	421	555	-134	Bonds payable -28, Long term loans payable -106
Total liabilities	675	826	-151	
Total net assets	1,601	1,739	-138	Retained earnings -508, Capital stock and capital surplus + 361
Total liabilities and net assets	2,276	2,566	-290	
Shareholders' equity ratio	69.7%	67.6%		
BPS	166.17 yen	187.73 yen		
PBR	7.51 x	11.32 x		
Share price of Carna Biosciences	1,248 yen	2,125 yen		

Note: Share price of Carna Biosciences is based on the closing price of JASDAQ growth

Revision to FY2017 Full-Year Forecast



- ✓ Consolidated sales forecast was revised to 701 million yen from 1,440 million yen because we lowered our sales forecast for the drug discovery support business and expect to receive milestone payment from Sierra after next year.
- ✓ As a result of revision to the sales forecast, we now expect consolidated operating loss of 727 million yen and net loss of 766 million yen.

(Millions of yen)

	Net Sales	Operating Loss	Ordinary Loss	Net Loss
FY2017 Previous forecast (a)	1,440	39	35	6
FY2017 Current forecast (b)	701	(727)	(738)	(766)
Change (c)=(a)-(b)	-738	-767	-774	-773
Change % (d)=(c)/(b)	-51.3%	—	—	—
FY2016/12 actual	811	(423)	(440)	(289)

Note 1: Rounded down to the nearest million yen.

Note 2: YoY change % for Operating Loss, Ordinary Loss, and Net Loss are not presented since losses were recorded.

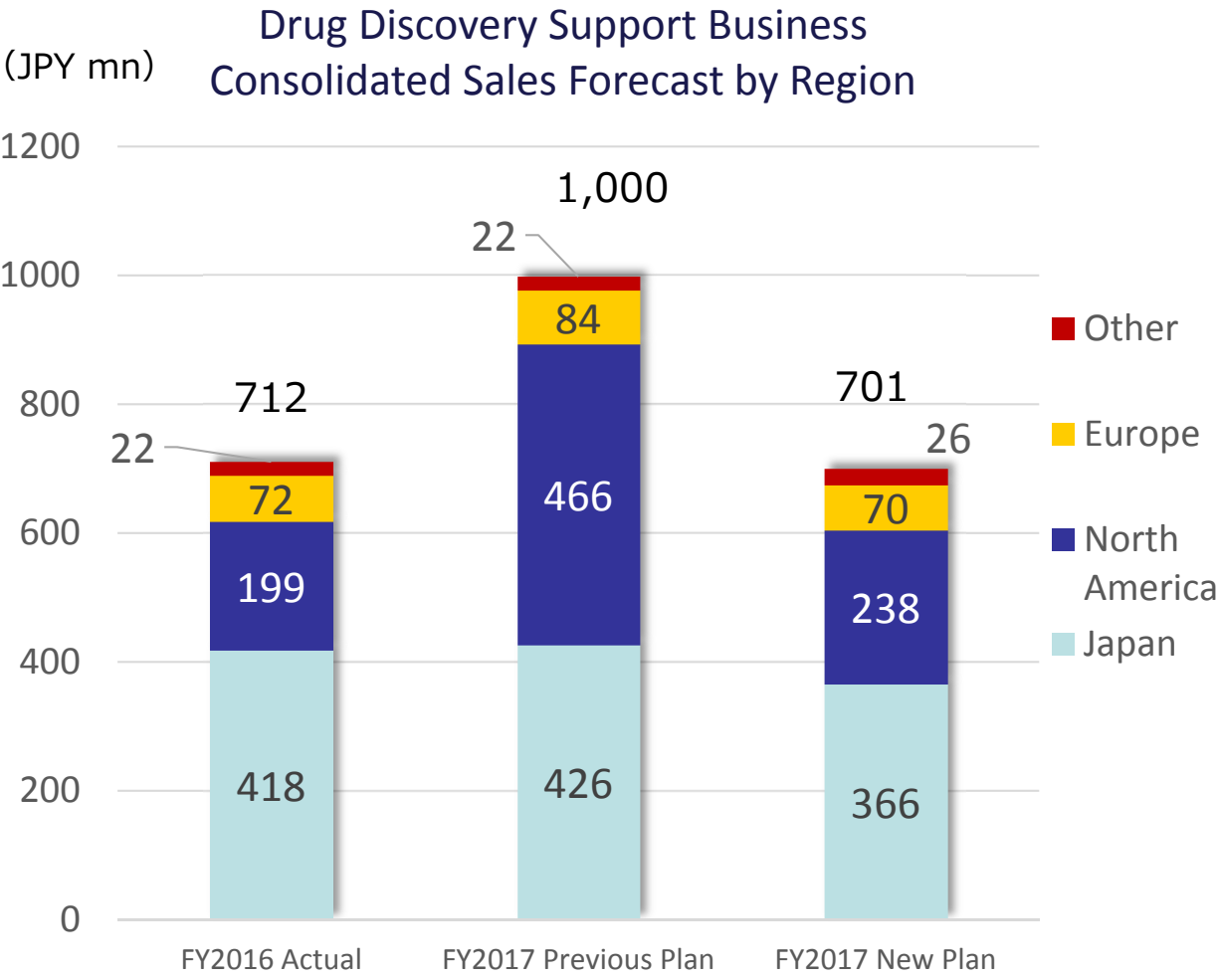
FY2017 Forecast by Segment



- ✓ Drug discovery and support business: Sales forecast was revised to 701 million yen from 1,000 million yen. We initially targeted to win large scale contracts for DGK assay kits in North America. However, we now expect medium scale order for this year. In Japan, profiling services provided to Ono Pharmaceutical is expected to be lower than initially planned.
- ✓ Drug discovery and development business: We initially expected to receive milestone payment for CDC7 inhibitor SRA141 that was out-licensed to Sierra. However, we now expect that it would be difficult to receive the milestone within this fiscal year due to a change in Sierra's development plan. We expect no sales from this business compared to our initial forecast of 440 million yen.

(Millions of yen)

	Sales			Operating Profit (Loss)		
	Drug Discovery Support	Drug Discovery & Development	Total	Drug Discovery Support	Drug Discovery & Development	Total
FY2017 Previous forecast (a)	1,000	440	1,440	443	(403)	39
FY2017 Current Forecast (b)	701	—	701	173	(901)	(727)
Change (c)=(a)-(b)	-298	-440	-738	-270	-497	-767
Change % (d)=(c)/(b)	-29.8%	—	-51.3%	-60.8%	—	—



- Japan : Profiling services provided to Ono Pharmaceutical is expected to fall short of initial plan. Sales forecast was revised to 366 million yen from 426 million yen.
- North America: We now expect that it would be difficult to win large scale contract within this fiscal year. Sales forecast was revised to 238 million yen from 466 million yen.

➤ *SRA141 (AS-141): CDC7 Inhibitor out-licensed to Sierra Oncology*

SRA141 is undergoing preclinical research as initially expected. However, as Sierra decided to focus its resources on its clinical stage program SRA737 for the short time, clinical trials of SRA141 are expected to start after next fiscal year. Carna will continue to coordinate with Sierra so that development of SRA141 will advance as planned.

➤ *NCB-0846: TNIK inhibitor (collaborating with National Cancer Center)*

NCB-0846 was selected as a grant program of AMED (Japan Agency for Medical Research and Development), "Practical Research for Innovative Cancer Control."

Carna and National Cancer Center are conducting the preclinical development with a support from AMED in order to initiate clinical studies as early as possible.

We are also conducting preclinical work of NCB-0594, backup for NCB-0846, to move forward to a preclinical stage.

➤ *Small molecules: TGF β signaling inhibitor (collaborating with Hiroshima University)*

Carna is developing a small molecule inhibitor of TGF β signaling targeting leukemia stem cells in collaboration with Hiroshima University. We will continue Lead optimization to maximize therapeutic effects of compounds.

➤ *AS-871: BTK inhibitor targeting autoimmune diseases*

AS-871, a novel non-covalent BTK inhibitor, is undergoing preclinical GLP safety study.

➤ *Small molecule targeting neurodegenerative disease*

Carna has identified highly active and highly selective compounds and is continuing the lead optimization to generate a clinical candidate.

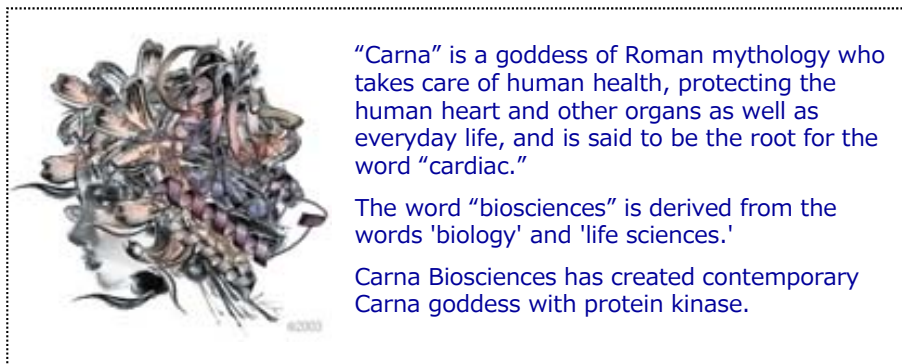
➤ *Small molecule: novel anti-malaria drug (collaborating with Kitasato University)*

Kitasato and Carna are continuing the lead optimization to generate a clinical candidate with the help of Medicines for Malaria Venture (MMV).

➤ *Other programs*

- ✓ Carna extended the collaboration agreement with Osaka Prefecture University until August 2019 to continue developing novel strategy for structure-based drug design.
- ✓ Carna is conducting a research to establish a new cancer immunotherapy in collaboration with Keio University School of Medicine.
- ✓ Carna extended the collaboration agreement with Ehime University School of Medicine until September 2018 to continue a research on a new drug target.

- In Japan, sales to Ono Pharmaceutical decreased year-on-year. We are making various efforts to boost sales in collaboration with our distributor.
- In North America, we started providing smaller scale DGK assay kits to several customers and recorded sales. We expect to receive medium size order within this fiscal year and are continuing marketing activity to win large-scale contracts, using the smaller scale kits as a starting point.
- Introduced our products and services at exhibitions such as BioJapan 2017 held in Japan and Bio 2017 held in the U.S. to win new customers.
- Launched promotion campaigns in Japan and North America to boost sales. We aim to increase sales as the end of the year approaches by conducting marketing activity strategically.



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** This document is an English translation of the Japanese original released on November 10, 2017.*

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