

## Consolidated Financial Results for the Second Quarter of the Year Ending December 31, 2018

[Japanese GAAP]

August 6, 2018

Company name: Carna Biosciences, Inc. Stock Exchange listing: Tokyo Stock Exchange(JASDAQ Growth)  
 Stock code: 4572 URL: <https://www.carnabio.com/english/>  
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 Scheduled submission of quarterly report: August 7, 2018  
 Scheduled date of dividend payment : –  
 Supplementary materials for financial results: Yes  
 Financial results briefing: Yes (for institutional investors and analysts)

(Rounded down to the nearest million yen)

### 1. Consolidated Financial Results for the Six Months Ended June 30, 2018

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended June 30, 2018	399	22.1	(436)	–	(443)	–	(489)	–
Six months ended June 30, 2017	326	(26.2)	(291)	–	(297)	–	(316)	–

Note: Comprehensive income Six months ended June 30, 2018: (491) million yen (–%)

Six months ended June 30, 2017: (318) million yen (–%)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended June 30, 2018	(51.17)		–	
Six months ended June 30, 2017	(34.03)		–	

### (2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of June 30, 2018	1,959	984	49.5
As of December 31, 2017	2,190	1,377	62.2

Reference: Shareholders' equity As of June 30, 2018: 969 million yen As of Dec. 31, 2017: 1,362 million yen

### 2. Dividends

	Dividend per share				
	End of 1 <sup>st</sup> quarter	End of 2 <sup>nd</sup> quarter	End of 3 <sup>rd</sup> quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	–	0.00	–	0.00	0.00
FY2018	–	0.00	–	–	–
FY2018 (Forecast)	–	–	–	0.00	0.00

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

### 3. Consolidated Financial Forecast for FY2018 (January 1, 2018 to December 31, 2018)

(Percentages show changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
FY2018	1,190	81.1	(679)	–	(694)	–	(758)	–	(79.39)

Note: Revision to the most recently announced financial forecast: None

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in the scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, etc.: 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 June 30, 2018: 9,622,600 shares    As of Dec. 31, 2017: 9,551,300 shares

2) Number of treasury stock at the end of the period

As of June 30, 2018: 65 shares                      As of Dec. 31, 2017: 44 shares

3) Average number of shares outstanding during the period

Second quarter of FY2018: 9,569,425 shares    Second quarter of FY2017: 9,290,859 shares

\* This financial report is exempt from quarterly review procedures under the Financial Instruments and Exchange Act.

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

The forecasts and other forward-looking statements included in this document are based on the information currently available to the management and certain assumptions considered by the management to be reasonable. Actual operating results may differ materially from these statements for various factors.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Analysis of Operating Results

As of the end of the second quarter of FY2018, we have two BTK inhibitor programs, AS-871 and CB-1763, in the preclinical stage, undergoing Investigational New Drug Application (IND)-enabling preclinical studies. For AS-871, a novel non-covalent BTK inhibitor targeting autoimmune diseases, a contract manufacturing organization (CMO) is conducting kg-scale production for preclinical safety studies under GLP conditions. We plan to accelerate preclinical studies in collaboration with contract research organizations (CROs), aiming to start clinical studies as soon as possible. We are also advancing CB-1763, a next generation non-covalent BTK inhibitor targeting ibrutinib resistant blood cancer, which showed strong anti-tumor effects in several mouse models. We are accelerating the preclinical development of CB-1763 by leveraging Evotec AG's INDiGO platform.

SRA141, a CDC7 inhibitor for treating cancer, is being developed by Sierra Oncology, Inc. under license from Carna. Sierra Oncology is preparing to submit an IND for SRA141, and we will receive the first milestone payment upon the progress of the development.

In March 2018, we entered into an agreement with Sumitomo Dainippon Pharma Co, Ltd. on joint research with the aim of discovering novel kinase inhibitors for psychiatric and neurological disorders. The agreement grants Sumitomo Dainippon Pharma exclusive worldwide rights to develop, manufacture and commercialize products resulting from the collaboration outside the field of oncology. We received an upfront payment in the second quarter of 2018.

At the Drug Discovery Support business, sales increased significantly in Europe and in Asia. The sales growth was particularly strong in China where drug discovery related business is expanding rapidly. We aim to expand sales in China further by strengthening partnership with our local distributor. In Japan and in the U.S., in order to boost sales, we focused our efforts on strengthening the relationship with our existing customers and on developing new customers, responding to customized orders flexibly to meet various customer needs.

As a result, in the first six months of FY2018, we recorded consolidated net sales of 399 million yen (22.1% year-on-year increase), an operating loss of 436 million yen (compared with 291 million yen in the same period of FY2017), an ordinary loss of 443 million yen (compared with 297 million yen in the same period of FY2017), and net loss attributable to owners of parent of 489 million yen (compared with 316 million yen in the same period of FY2017).

Results by segment are as follows.

#### (a) Drug Discovery and Development business

At the Drug Discovery and Development business, we entered into an agreement on joint research, development, and commercialization with Sumitomo Dainippon Pharma and received an upfront payment. We invested actively in research and development, focusing on the drug discovery programs in the preclinical stage. As a result, this segment recorded sales of 50 million yen (no sales recorded in the same period of FY2017) and an operating loss of 515 million yen (compared with 362 million yen in the same period of FY2017).

#### (b) Drug Discovery Support business

At the Drug Discovery Support business, we recorded sales of 349 million yen (6.8% year-on-year increase) and an operating profit of 78 million yen (12.1% year-on-year increase) by providing protein kinases, profiling and screening services, and cell-based assay services. By region, sales in Japan decreased 15.3% year-on-year to 154 million yen, sales in North America increased 5.5% year-on-year to 105 million yen, sales in Europe increased 81.5% year-on-year to 56 million yen, and sales in other region increased 145.8% year-on-year to 32 million yen.

### (2) Analysis of Financial Position

At the end of the second quarter of FY2018, total assets decreased by 231 million yen from the end of FY2017 to 1,959 million yen, mainly due to decreases of 336 million yen in cash and deposit and 18 million yen in accounts receivables-trade, and an increase of 29 million yen in raw materials and supplies.

Total liabilities increased by 162 million yen from the end of FY2017 to 974 million yen, mainly due to an increase of 94 million yen in current portion of long-term loans payable, a decrease of 38 million yen in accounts payable-other, and an increase of 127 million yen in long-term loans payable.

Net assets decreased 393 million yen from the end of FY2017 to 984 million yen, mainly due to 489 million yen of loss attributable to owners of parent, increases of 48 million yen in capital stock and 48 million yen in capital surplus.

Equity-to-asset ratio as of the end of the second quarter of FY2018 was 49.5% compared to 62.2% as of the end of FY2017.

**2. Consolidated Financial Statements and Notes****(1) Consolidated Balance Sheet**

	(Thousands of yen)	
	FY2017 (As of Dec. 31, 2017)	Second quarter of FY2018 (As of Jun. 30, 2018)
Assets		
Current assets		
Cash and deposits	1,856,218	1,519,562
Accounts receivable–trade	92,283	73,786
Merchandise and finished goods	82,650	74,956
Work in process	4,847	11,165
Raw materials and supplies	30,469	59,569
Other	67,779	103,474
Total current assets	2,134,250	1,842,515
Non-current assets		
Property, plant and equipment	20,381	17,083
Intangible assets	405	294
Investments and other assets	35,349	99,146
Total non-current assets	56,136	116,523
Total assets	2,190,386	1,959,039

	(Thousands of yen)	
	FY2017 (As of Dec. 31, 2017)	Second quarter of FY2018 (As of Jun. 30, 2018)
<b>Liabilities</b>		
Current liabilities		
Accounts payable–trade	3,026	1,088
Current portion of bonds	28,000	28,000
Current portion of long-term loans payable	153,997	248,427
Accounts payable–other	124,727	86,521
Income taxes payable	19,259	13,293
Other	12,956	13,511
Total current liabilities	341,966	390,841
Non-current liabilities		
Bonds payable	144,000	130,000
Long-term loans payable	298,122	425,321
Asset retirement obligations	26,179	26,440
Other	2,209	2,125
Total non-current liabilities	470,511	583,886
Total liabilities	812,477	974,728
<b>Net assets</b>		
Shareholders' equity		
Capital stock	3,226,487	3,275,296
Capital surplus	2,044,512	2,093,321
Retained earnings	(3,906,897)	(4,396,591)
Treasury shares	(99)	(117)
Total shareholders' equity	1,364,003	971,909
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(55)	(552)
Foreign currency translation adjustment	(1,131)	(2,098)
Total accumulated other comprehensive income	(1,186)	(2,651)
Subscription rights to shares	15,092	15,052
Total net assets	1,377,908	984,310
Total liabilities and net assets	2,190,386	1,959,039

**(2) Consolidated Statements of Income and Comprehensive Income****Consolidated Statement of Income**

	(Thousands of yen)	
	First six months of FY2017 (Jan. 1 – Jun. 30, 2017)	First six months of FY2018 (Jan. 1 – Jun. 30, 2018)
Net sales	326,799	399,114
Cost of sales	112,600	110,275
Gross profit	214,198	288,839
Selling, general and administrative expenses	506,042	725,534
Operating loss	(291,843)	(436,694)
Non-operating income		
Interest income	21	8
Dividend income	177	182
Subsidy income	5,131	—
Grant income	—	246
Other	724	236
Total non-operating income	6,055	674
Non-operating expenses		
Interest expenses	3,540	5,611
Guarantee commission	939	924
Share issuance cost	561	557
Subscription rights to shares issuance cost	5,999	—
Foreign exchange losses	488	5
Other	—	29
Total non-operating expenses	11,530	7,128
Ordinary loss	(297,318)	(443,148)
Extraordinary losses		
Impairment loss	17,649	44,615
Total extraordinary losses	17,649	44,615
Loss before income taxes	(314,968)	(487,764)
Income taxes-current	1,264	2,001
Income taxes-deferred	(90)	(83)
Total income taxes	1,173	1,917
Loss	(316,142)	(489,682)
Loss attributable to owners of parent	(316,142)	(489,682)

**Consolidated Statement of Comprehensive Income**

	(Thousands of yen)	
	First six months of FY2017 (Jan. 1 – Jun. 30, 2017)	First six months of FY2018 (Jan. 1 – Jun. 30, 2018)
Loss	(316,142)	(489,682)
Other comprehensive income		
Valuation difference on available-for-sale securities	72	(497)
Foreign currency translation adjustment	(2,159)	(967)
Total other comprehensive income	(2,087)	(1,464)
Comprehensive income	(318,229)	(491,147)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(318,229)	(491,147)



**(3) Consolidated Statements of Cash Flows**

(Thousands of yen)

	FY2017 (Jan. 1 – Jun. 30, 2017)	FY2018 (Jan. 1 – Jun. 30, 2018)
Cash flows from operating activities		
Profit (loss) before income taxes	(314,968)	(487,764)
Depreciation	7,206	7,170
Impairment loss	17,649	44,615
Interest income	(21)	(8)
Dividend income	(177)	(182)
Interest expenses	3,540	5,611
Subsidy income	(5,131)	—
Grant income	—	(246)
Share issuance cost	561	557
Issuance cost of subscription rights to shares	5,999	—
Foreign exchange losses (gains)	1,438	1,885
Decrease (increase) in notes and accounts receivable–trade	48,809	17,690
Decrease (increase) in inventories	6,906	(27,723)
Increase (decrease) in notes and accounts payable–trade	(2,491)	(1,924)
Increase (decrease) in accounts payable–other	(22,691)	(36,600)
Other, net	22,379	(8,682)
Subtotal	(230,990)	(485,603)
Interest income received	21	8
Interest expenses paid	(3,454)	(5,835)
Income taxes (paid) refund	11,854	(4,006)
Other	—	246
Net cash provided by (used in) operating activities	(222,568)	(495,190)
Cash flows from investing activities		
Purchase of property, plant and equipment	(28,621)	(49,759)
Purchase of intangible assets	(117)	—
Cash flows from investing activities	(28,738)	(49,759)
Cash flows from financing activities		
Proceeds from long-term loans payable	—	350,000
Repayments of long-term loans payable	(71,130)	(128,371)
Redemption of bonds	(14,014)	(14,014)
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	69,660	2,751
Other	(99)	(28)
Net cash provided by (used in) financing activities	(15,582)	210,337
Effect of exchange rate change on cash and cash equivalents	(1,877)	(2,044)
Net increase (decrease) in cash and cash equivalents	(268,766)	(336,656)
Cash and cash equivalents at beginning of period	2,161,186	1,856,218
Cash and cash equivalents at end of period	1,892,419	1,519,562

*This financial report is solely a translation and summary 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.*