

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

[Japanese GAAP]

November 9, 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: November 12, 2018  
 Scheduled date of dividend payment: —  
 Supplementary materials for financial results: Yes  
 Financial results briefing: No

(Rounded down to the nearest million yen)

### 1. Consolidated Financial Results for the Nine Months Ended September 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	%
Nine months ended September 30, 2018	586	21.4	(762)	—	(773)	—	(822)	—
Nine months ended September 30, 2017	483	(16.8)	(477)	—	(486)	—	(508)	—

Note: Comprehensive income Nine months ended September 30, 2018: (823) million yen (—%)

Nine months ended September 30, 2017: (509) million yen (—%)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended September 30, 2018	(85.82)		—	
Nine months ended September 30, 2017	(54.46)		—	

### (2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of September 30, 2018	1,629	695	41.8
As of December 31, 2017	2,190	1,377	62.2

Reference: Shareholders' equity As of September 30, 2018: 681 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 September 30, 2018: 9,656,600 shares    As of December 31, 2017: 9,551,300 shares

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

As of September 30, 2018: 65 shares                      As of December 31, 2017: 44 shares

3) Average number of shares outstanding during the period

Third quarter of FY2018: 9,589,498 shares    Third quarter of FY2017: 9,334,557 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 third quarter of FY2018, we have two preclinical stage programs, AS-0871 and AS-1763, undergoing Investigational New Drug Application (IND)-enabling preclinical studies. For AS-0871, a novel non-covalent BTK inhibitor targeting autoimmune diseases, we are conducting preclinical safety studies under GLP conditions in collaboration with contract research organizations (CROs), aiming to start clinical studies as soon as possible. We are also advancing AS-1763, a next generation non-covalent BTK inhibitor targeting ibrutinib resistant blood cancer, 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 successfully completed the Investigational New Drug Application (IND) filing process with the U.S. Food and Drug Administration (FDA) for SRA141 and is preparing for the initiation of Phase 1/2 clinical trial. Carna will receive the first milestone payment of \$4.0 million upon dosing of the first patient in the first Phase 1 clinical trial of SRA141. Under the terms of the license agreement, Carna will receive milestone payments of up to \$270 million upon achievement of certain milestones and single-digit tiered royalties on the net sales of any product successfully developed.

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. We are advancing the research in close collaboration with Sumitomo Dainippon Pharm. 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 growth was particularly strong in China where drug discovery related business is expanding rapidly. 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 nine months of FY2018, we recorded consolidated net sales of 586 million yen (21.4% year-on-year increase), an operating loss of 762 million yen (compared with 477 million yen in the same period of FY2017), an ordinary loss of 773 million yen (compared with 486 million yen in the same period of FY2017), and net loss attributable to owners of parent of 822 million yen (compared with 508 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 876 million yen (compared with 576 million yen in the same period of FY2017).

#### (b) Drug Discovery Support business

At the Drug Discovery Support business, we recorded sales of 536 million yen (11.1% year-on-year increase) and an operating profit of 114 million yen (14.8% year-on-year increase) by providing protein kinases, profiling and screening services, and cell-based assay services. By region, sales in Japan decreased 13.7% year-on-year to 229 million yen, sales in North America increased 20.3% year-on-year to 175 million yen, sales in Europe increased 57.9% year-on-year to 78 million yen, and sales in other region increased 147.7% year-on-year to 53 million yen.

### (2) Analysis of Financial Position

At the end of the third quarter of FY2018, total assets decreased by 561 million yen from the end of FY2017 to 1,629 million yen, mainly due to a decrease of 712 million yen in cash and deposit, an increase of 26 million yen in accounts receivables-trade, and an increase of 25 million yen in raw materials and supplies.

Total liabilities increased by 120 million yen from the end of FY2017 to 933 million yen, mainly due to an increase of 69 million yen in current portion of long-term loans payable, a decrease of 28 million yen in bonds payable, and an increase of 82 million yen in long-term loans payable.

Net assets decreased 681 million yen from the end of FY2017 to 695 million yen, mainly due to 822 million yen of loss attributable to owners of parent, increases of 70 million yen in capital stock and 70 million yen in capital surplus.

Equity-to-asset ratio as of the end of the third quarter of FY2018 was 41.8% 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)	Third quarter of FY2018 (As of Sep. 30, 2018)
Assets		
Current assets		
Cash and deposits	1,856,218	1,144,152
Accounts receivable–trade	92,283	119,205
Merchandise and finished goods	82,650	78,163
Work in process	4,847	6,138
Raw materials and supplies	30,469	55,995
Other	67,779	119,543
Total current assets	2,134,250	1,523,199
Non-current assets		
Property, plant and equipment	20,381	14,923
Intangible assets	405	239
Investments and other assets	35,349	90,846
Total non-current assets	56,136	106,009
Total assets	2,190,386	1,629,209

	(Thousands of yen)	
	FY2017 (As of Dec. 31, 2017)	Third quarter of FY2018 (As of Sep. 30, 2018)
<b>Liabilities</b>		
Current liabilities		
Accounts payable–trade	3,026	3,422
Current portion of bonds	28,000	28,000
Current portion of long-term loans payable	153,997	223,480
Accounts payable–other	124,727	130,534
Income taxes payable	19,259	10,274
Other	12,956	12,418
Total current liabilities	341,966	408,129
Non-current liabilities		
Bonds payable	144,000	116,000
Long-term loans payable	298,122	380,499
Asset retirement obligations	26,179	26,570
Other	2,209	2,083
Total non-current liabilities	470,511	525,153
Total liabilities	812,477	933,282
<b>Net assets</b>		
Shareholders' equity		
Capital stock	3,226,487	3,297,318
Capital surplus	2,044,512	2,115,343
Retained earnings	(3,906,897)	(4,729,836)
Treasury shares	(99)	(117)
Total shareholders' equity	1,364,003	682,709
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(55)	(688)
Foreign currency translation adjustment	(1,131)	(631)
Total accumulated other comprehensive income	(1,186)	(1,319)
Subscription rights to shares	15,092	14,537
Total net assets	1,377,908	695,926
Total liabilities and net assets	2,190,386	1,629,209

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

	(Thousands of yen)	
	First nine months of FY2017 (Jan. 1 – Sep. 30, 2017)	First nine months of FY2018 (Jan. 1 – Sep. 30, 2018)
Net sales	483,301	586,862
Cost of sales	167,802	178,918
Gross profit	315,498	407,943
Selling, general and administrative expenses	792,907	1,170,699
Operating loss	(477,409)	(762,755)
Non-operating income		
Interest income	37	15
Dividend income	267	274
Subsidy income	5,131	—
Grant income	—	246
Other	784	262
Total non-operating income	6,221	799
Non-operating expenses		
Interest expenses	5,100	8,245
Guarantee commission	1,406	1,384
Share issuance cost	1,666	557
Subscription rights to shares issuance cost	6,178	—
Foreign exchange losses	582	935
Other	21	56
Total non-operating expenses	14,957	11,179
Ordinary loss	(486,145)	(773,135)
Extraordinary losses		
Impairment loss	19,267	46,946
Total extraordinary losses	19,267	46,946
Loss before income taxes	(505,412)	(820,081)
Income taxes-current	3,048	2,971
Income taxes-deferred	(136)	(125)
Total income taxes	2,912	2,845
Loss	(508,324)	(822,927)
Loss attributable to owners of parent	(508,324)	(822,927)

**Consolidated Statement of Comprehensive Income**

	(Thousands of yen)	
	First nine months of FY2017 (Jan. 1 – Sep. 30, 2017)	First nine months of FY2018 (Jan. 1 – Sep. 30, 2018)
Loss	(508,324)	(822,927)
Other comprehensive income		
Valuation difference on available-for-sale securities	18	(632)
Foreign currency translation adjustment	(1,238)	499
Total other comprehensive income	(1,220)	(132)
Comprehensive income	(509,545)	(823,060)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(509,545)	(823,060)

*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.*