JASDAQ

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2016 (Three Months Ended March 31, 2016)

[Japanese GAAP]

May 13, 2016

Company name: tella, Inc. Stock Exchange Listing: Tokyo Stock Exchange (JASDAQ)
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Scheduled submission of Quarterly Report: May 13, 2016
Scheduled date of dividend payment: -
Preparation of supplementary materials for quarterly financial results: None
Holding of quarterly financial results meeting: None

Note: The original disclosure in Japanese was released on May 13, 2016 at 15:30 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended March 31, 2016 (Jan. 1, 2016 to Mar. 31, 2016)

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended Mar. 31, 2016	544	(14.9)	(89)	-	(103)	-	(120)	-
Three months ended Mar. 31, 2015	640	95.0	(84)	-	(93)	-	(96)	-

Note: Comprehensive income (millions of yen) Three months ended Mar. 31, 2016: (119) (- %)
Three months ended Mar. 31, 2015: (100) (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Mar. 31, 2016	(8.60)	-
Three months ended Mar. 31, 2015	(6.97)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Mar. 31, 2016	2,488	1,372	52.8
As of Dec. 31, 2015	2,377	1,491	60.6

Reference: Shareholders' equity (millions of yen) As of Mar. 31, 2016: 1,313 As of Dec. 31, 2015: 1,441

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY12/2015	-	0.00	-	0.00	0.00
FY12/2016	-				
FY12/2016 (Forecast)		0.00	-	0.00	0.00

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

3. Consolidated Forecast for the Fiscal Year Ending December 31, 2016 (Jan. 1, 2016 to Dec. 31, 2016)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	1,126	3.0	(123)	-	(134)	-	(140)	-	(10.01)
Full year	2,052	7.5	(316)	-	(328)	-	(349)	-	(24.96)

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

*** Notes**

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

Newly added: - Excluded: -

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

(3) Changes in accounting policies and 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-based estimates: None

4) Restatements: None

Note: Please refer to “2. (3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements” on page 4 of the attachments for further information.

(4) Number of shares outstanding (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Mar. 31, 2016:	13,995,156 shares	As of Dec. 31, 2015:	13,995,156 shares

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

As of Mar. 31, 2016:	253 shares	As of Dec. 31, 2015:	253 shares

3) Average number of shares outstanding during the period

Three months ended Mar. 31, 2016:	13,994,903 shares	Three months ended Mar. 31, 2015:	13,794,917 shares

Note 1: Information regarding the implementation of quarterly review procedures

At the time of disclosure, the review procedures based on the Financial Instruments and Exchange Act for the quarterly consolidated financial statements have been completed.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time these materials were created. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to “Explanation of Consolidated Forecast and Other Forward-looking Statements” on page 3 of the attachments for forecast assumptions and notes of caution for usage.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

1) Summary of the Current Fiscal Year

In the first quarter of 2016, the tella Group's operating environment was as follows. The promotion of regenerative and cell medicine is one of the main elements of the Abenomics growth strategy. One result was the April 2013 passage of the Act concerning the Comprehensive Promotion of Measures for the Rapid and Safe Use of Regenerative Medicine in Japan. Additional two laws were passed in November 2013. One is the Act concerning the Assurance of Quality, Efficacy and Safety for Pharmaceuticals and Medical Devices, which newly defines regenerative medicine products and establishes a system for quick approvals of these products with certain conditions. The other is the Act concerning the Assurance of Safety for Regenerative Medicine, which is aimed at facilitating the commercialization of cell processing operations. Overall, there is progress toward establishing an environment for regenerative medicine and cell therapy businesses and even creating an industry for these activities.

Additionally, the Regenerative Medicine Safety Act prescribes the three-level standards for provision of drugs for a clinical trial and the procedures for filing a plan, which are commensurate with the risk of regenerative medicine; and also the standards and approval procedures for cell culture and processing facilities. All of which create the environment that allows us to offer regenerative medicine and cell medicine more smoothly and promptly.

The tella Group performs R&D activities involving the DC vaccine therapy, which is one type of cancer immunotherapies. We provide cancer treatment technologies and know-how, which incorporate many exclusive modifications of ours, to contracted medical institutions. We conduct sales activities targeting medical institutions nationwide and academic and information activities. In particular, we provide information to patients by using seminars and other methods and present research results at academic conferences. We also operate cell processing facilities by contract chiefly at universities and research institutions and provide maintenance and management services for these facilities, sell cell culture devices, and operate a CRO business, small-amount short-term insurance business and pharmaceuticals business.

First quarter net sales decreased 95,681 thousand yen, or 14.9%, from one year earlier to 544,624 thousand yen mainly because of decreases in the number of cases in Cell Medicine Business segment and sales of cell culture devices supplied by the Medical Support Business segment. In terms of profitability, there were losses due mainly to up-front development expenses in the Pharmaceuticals Business segment in association with full-scale development activities to receive regulatory approval of the DC vaccine as regenerative medicine products. As a result, operating loss increased from 84,810 thousand yen one year earlier to 89,253 thousand yen, ordinary loss increased from 93,347 thousand yen to 103,439 thousand yen and net loss attributable to owners of parent increased from 96,219 thousand yen to 120,379 thousand yen.

Performance by reportable segment was as follows.

Cell Medicine Business

In this business segment, tella provides unique cancer treatment technologies and know-how, chiefly the DC vaccine therapy, to contracted medical institutions.

To provide information to patients, we held cancer treatment seminars jointly with contracted medical institutions in the prefectures of Hokkaido, Miyagi, Tokyo, Saitama, Kanagawa, Aichi, Kyoto, Hyogo, and Fukuoka.

Regarding sales activities targeting medical institutions across Japan, we conducted a broad range of activities to raise awareness of our technologies and operations. These activities were primarily cancer therapy forums for physicians and other types of seminars. Tella signed an alliance agreement in February 2016 with Kanazawa Medical University. We also established client medical institution agreements with Medipolis Medical Research Institute Medipolis Tokyo Clinic and Yukokai Medical Corporation Clinic C4 in February and March 2016, respectively. These new agreements brought the total number of contracted medical institutions in Japan to 39. In addition, we established a service agreement with Kohjin Bio Co., Ltd. for the purpose of working with this company on increasing the number of medical institutions that offer cancer immunotherapy.

Regarding R&D activities, tella reached an agreement with OncoTherapy Science, Inc. in April 2016 to tackle joint development of “Neoantigen DC vaccine therapy” based on somatic mutation analysis of cancer.

During the first quarter (January to March) of 2016, there were approximately 250 cases in which the DC vaccine therapy was used in the contracted medical institutions. This raised the total number of these therapy cases since the establishment of tella to about 10,350.

Segment sales for the first quarter decreased 57,409 thousand yen, or 21.2%, from one year earlier to 213,800 thousand yen due to the decline in the number of cases from one year earlier. Operating loss totaled 41,085 thousand yen, compared with operating loss of 17,881 thousand yen one year earlier.

Medical Support Business

Activities in this segment include the operation of cell processing facilities by contract for research and medical institutions, the provision of maintenance and management services for these facilities, sales of replacement supplies and cell culture devices, sales of small-amount short-term insurance, the CRO business and the genetic diagnosis support business.

Segment sales for the first quarter decreased 37,472 thousand yen, or 10.2%, from one year earlier to 331,624 thousand yen. This was mainly due to a decrease in sales of cell culture devices. As earnings mainly from sales of cell processing devices were recorded, operating income totaled 543 thousand yen, compared with an operating loss of 39,963 thousand yen one year earlier.

Pharmaceuticals Business

In the Pharmaceuticals Business, we are making further efforts to put in place a development system and accelerating the development activities for the purpose of obtaining pharmaceutical approval for the DC vaccine as a regenerative medicine product for pancreatic cancer.

There was an operating loss of 53,388 thousand yen, compared with an operating loss of 34,395 thousand yen one year earlier due to the development activities to obtain the pharmaceutical approval.

(2) Explanation of Financial Position

Total assets increased 110,991 thousand yen from the end of the previous fiscal year to 2,488,322 thousand yen as of the end of the first quarter. It was mainly due to increases in cash and deposits and notes and accounts receivable-trade and a decrease due to sales of investment securities.

Total liabilities increased 229,940 thousand yen from the end of previous fiscal year to 1,115,653 thousand yen. This was mainly due to an increase in short-term loans payable.

Net assets decreased 118,948 thousand yen from the end of the previous fiscal year to 1,372,669 thousand yen. This was mainly due to a decrease in retained earnings attributable to the booking of net loss.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the forecast in the Consolidated Financial Results for the Fiscal Year Ended December 31, 2015 [Japanese GAAP] that was announced on February 9, 2016.

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time these materials were created. Consequently, these statements incorporate many uncertainties. Actual performance may differ from these forecasts for a number of reasons.

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 and Accounting-based Estimates, and Restatements

Changes in Accounting Policies

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 the current fiscal year. 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 the current fiscal year, 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 has been revised and the minority interests item has been renamed non-controlling interests. For consistency with these changes, the consolidated financial statements for the first quarter of the previous fiscal year and the previous fiscal year have been revised.

The Company has adopted these accounting standards, etc. from the beginning of the first quarter of the current fiscal year, 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 quarter of the current fiscal year.

3. Important Information about Going Concern Assumption

The tella Group performs R&D activities involving the DC vaccine therapy, which is one type of cancer immunotherapy. We make up-front investments to make medical institutions aware of technologies incorporating many exclusive modifications of ours and to increase the use of these technologies. Furthermore, expenses are incurred prior to earnings involving R&D and medical support services associated with cancer treatment technologies and other know-how. For these reasons, there are significant doubts about the going concern assumption because of the resulting operating losses and negative operating cash flows year after year.

At this time, we believe that there are no concerns about the continuity of our business operations after considering cash and cash equivalents at the end of the first quarter of the current fiscal year and the outlook for cash flows. Furthermore, group companies are improving operating efficiency and holding down investments and operating expenses as much as possible in order to defuse the current situation. We aim to become profitable on a consolidated basis over a period of two years starting from January 1, 2016 and ending on December 31, 2017 as we establish more relationships with medical institutions and group companies with respect to business operations and technologies.

We will continue to work on improving profitability by taking these actions and we have secured adequate working capital for upcoming business activities. Consequently, we believe that there are no significant uncertainties regarding the going concern assumption.

4. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY12/2015 (As of Dec. 31, 2015)	First quarter of FY12/2016 (As of Mar. 31, 2016)
Assets		
Current assets		
Cash and deposits	899,069	1,006,801
Notes and accounts receivable-trade	334,846	511,223
Merchandise	2,328	2,195
Work in process	12,601	1,500
Raw materials	5,053	4,957
Prepaid expenses	40,046	27,855
Income taxes receivable	7,589	6,225
Deferred tax assets	2,533	82
Other	50,152	46,166
Total current assets	1,354,221	1,607,007
Non-current assets		
Property, plant and equipment		
Buildings, net	285,057	277,659
Tools, furniture and fixtures, net	133,193	126,818
Leased assets, net	13,161	12,271
Total property, plant and equipment	431,412	416,749
Intangible assets		
Software	62,736	57,677
Goodwill	739	694
Right of using patent	13,663	12,282
Other	-	28
Total intangible assets	77,139	70,683
Investments and other assets		
Investment securities	242,035	128,996
Long-term loans receivable	18,075	18,075
Lease deposits	176,721	171,324
Insurance funds	15,238	15,238
Deferred tax assets	1,249	1,153
Other	61,238	59,094
Total investments and other assets	514,557	393,882
Total non-current assets	1,023,109	881,315
Total assets	2,377,331	2,488,322

(Thousands of yen)

	FY12/2015 (As of Dec. 31, 2015)	First quarter of FY12/2016 (As of Mar. 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	79,335	171,389
Current portion of bonds	20,000	10,000
Short-term loans payable	-	200,000
Current portion of long-term loans payable	172,360	172,360
Lease obligations	7,927	7,550
Outstanding claims	728	1,534
Policy reserve	1,388	1,511
Accounts payable-other	103,063	87,556
Income taxes payable	5,807	9,426
Deferred tax liabilities	648	-
Asset retirement obligations	12,016	12,795
Other	28,604	29,680
Total current liabilities	431,880	703,804
Non-current liabilities		
Long-term loans payable	333,030	289,940
Lease obligations	18,400	16,600
Long-term lease deposited	88,124	88,124
Asset retirement obligations	8,942	15,543
Deferred tax liabilities	5,335	1,640
Total non-current liabilities	453,832	411,849
Total liabilities	885,713	1,115,653
Net assets		
Shareholders' equity		
Capital stock	1,346,778	1,346,778
Capital surplus	1,218,455	1,218,455
Retained earnings	(1,131,687)	(1,251,028)
Treasury shares	(282)	(282)
Total shareholders' equity	1,433,264	1,313,923
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,228	-
Total accumulated other comprehensive income	8,228	-
Subscription rights to shares	4,459	4,002
Non-controlling interests	45,665	54,742
Total net assets	1,491,617	1,372,669
Total liabilities and net assets	2,377,331	2,488,322

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

For the Three-month Period

(Thousands of yen)

	First three months of FY12/2015 (Jan. 1 – Mar. 31, 2015)	First three months of FY12/2016 (Jan. 1 – Mar. 31, 2016)
Net sales	640,306	544,624
Cost of sales	387,633	312,366
Gross profit	252,673	232,257
Selling, general and administrative expenses	337,483	321,510
Operating loss	(84,810)	(89,253)
Non-operating income		
Interest income	595	192
Rent income of real estate	19,514	30,830
Other	2,531	251
Total non-operating income	22,641	31,274
Non-operating expenses		
Interest expenses	1,876	1,726
Interest on bonds	108	54
Share of loss of entities accounted for using equity method	3,102	3,542
Rent cost of real estate	19,514	30,830
Guarantee commission	84	80
Other	6,491	9,226
Total non-operating expenses	31,178	45,460
Ordinary loss	(93,347)	(103,439)
Extraordinary income		
Gain on change in equity	-	1,765
Gain on sales of non-current assets	-	332
Gain on sales of investment securities	-	8,600
Gain on reversal of subscription rights to shares	-	660
Total extraordinary income	-	11,359
Extraordinary losses		
Loss on change in equity	7,480	-
Impairment loss	-	5,760
Loss on retirement of non-current assets	454	3,429
Total extraordinary losses	7,935	9,189
Loss before income taxes	(101,283)	(101,269)
Income taxes-current	1,407	7,758
Income taxes-deferred	(2,080)	2,273
Total income taxes	(672)	10,031
Loss	(100,610)	(111,301)
Profit (loss) attributable to non-controlling interests	(4,391)	9,077
Loss attributable to owners of parent	(96,219)	(120,379)

Quarterly Consolidated Statement of Comprehensive Income

For the Three-month Period

(Thousands of yen)

	First three months of FY12/2015 (Jan. 1 – Mar. 31, 2015)	First three months of FY12/2016 (Jan. 1 – Mar. 31, 2016)
Loss	(100,610)	(111,301)
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(8,228)
Total other comprehensive income	-	(8,228)
Comprehensive income	(100,610)	(119,530)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(96,219)	(128,607)
Comprehensive income attributable to non-controlling interests	(4,391)	9,077

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

There was no significant change in shareholders' equity compared to the end of the previous fiscal year.

Segment and Other Information

Segment Information

I First three months of FY12/2015 (Jan. 1 – Mar. 31, 2015)

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

	Reportable segment				Total	Adjustments (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Cell Medicine	Medical Support	Pharmaceuticals	Subtotal			
Net sales							
External sales	271,209	369,097	-	640,306	640,306	-	640,306
Inter-segment sales and transfers	-	-	-	-	-	-	-
Total	271,209	369,097	-	640,306	640,306	-	640,306
Segment loss	(17,881)	(39,963)	(34,395)	(92,240)	(92,240)	7,430	(84,810)

Notes: 1. The 7,430 thousand yen adjustment to segment loss includes an elimination for inter-segment transactions of 6,501 thousand yen and an adjustment of 928 thousand yen to non-current assets.
2. Segment loss is adjusted with operating loss shown on the quarterly consolidated statement of income.

II First three months of FY12/2016 (Jan. 1 – Mar. 31, 2016)

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

	Reportable segment				Total	Adjustments (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Cell Medicine	Medical Support	Pharmaceuticals	Subtotal			
Net sales							
External sales	213,800	330,824	-	544,624	544,624	-	544,624
Inter-segment sales and transfers	-	800	-	800	800	(800)	-
Total	213,800	331,624	-	545,424	545,424	(800)	544,624
Segment profit (loss)	(41,085)	543	(53,388)	(93,931)	(93,931)	4,678	(89,253)

Notes: 1. The 4,678 thousand yen adjustment to segment profit (loss) includes an elimination for inter-segment transactions of 1,811 thousand yen and an adjustment of 2,866 thousand yen to non-current assets.
2. Segment loss is adjusted with operating loss shown on the quarterly consolidated statement of income.

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.