JASDAQ

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

[Japanese GAAP]

November 11, 2016

Company name: tella, Inc. Stock Exchange Listing: Tokyo Stock Exchange (JASDAQ)
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Scheduled submission of Quarterly Report: November 11, 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 November 11, 2016 at 15:30 (GMT +9).

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

1. Consolidated Financial Results for the Nine Months Ended September 30, 2016 (Jan. 1, 2016 to Sep. 30, 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	%
Nine months ended Sep. 30, 2016	1,421	(3.9)	(368)	-	(390)	-	(463)	-
Nine months ended Sep. 30, 2015	1,479	3.0	(406)	-	(429)	-	(449)	-

Note: Comprehensive income (millions of yen) Nine months ended Sep. 30, 2016: (445) (- %)
Nine months ended Sep. 30, 2015: (442) (- %)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Sep. 30, 2016	(33.12)	-
Nine months ended Sep. 30, 2015	(33.26)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2016	1,916	1,046	50.6
As of Dec. 31, 2015	2,377	1,491	60.6

Reference: Shareholders' equity (millions of yen) As of Sep. 30, 2016: 970 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	-	0.00	-		
FY12/2016 (Forecast)				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
Full year	1,850	(3.1)	(450)	-	(470)	-	(550)	-	(39.30)

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: 1 (Tella Small Amount and Short term Insurance Inc.)

(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 Sep. 30, 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 Sep. 30, 2016:	253 shares	As of Dec. 31, 2015:	253 shares

3) Average number of shares outstanding during the period

Nine months ended Sep. 30, 2016:	13,994,903 shares	Nine months ended Sep. 30, 2015:	13,922,388 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 nine months 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 dendritic cell (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 and pharmaceuticals business.

In the first nine months, net sales decreased 58,353 thousand yen, or 3.9%, from one year earlier to 1,421,147 thousand yen mainly because of a decline in the number of cases from one year earlier in the Cell Medicine Business. Although orders and sales of cell culture devices and other items were strong in the Medical Support Business, sales declined in the Cell Medicine Business and there were development expenses for regulatory approval as regenerative medicine products in the Pharmaceuticals Business. As a result, operating loss was 368,717 thousand yen compared with a loss of 406,851 thousand yen one year earlier, ordinary loss was 390,457 thousand yen compared with a loss of 429,063 thousand yen one year earlier, and net loss attributable to owners of parent was 463,506 thousand yen compared with a loss of 449,176 thousand yen one year earlier.

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, Kanagawa, Aichi, Kyoto, Hyogo, Tottori, Kagawa, Tokushima and Fukuoka.

Regarding R&D activities, a research paper that explains the prognostic factors and treatment effects on survival of the DC vaccine therapy for treating advanced lung cancer was published in the academic journal Cancer Immunology, Immunotherapy in July 2016.

During the third quarter (July to September) of 2016, there were approximately 230 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 10,800.

Segment sales for the first nine months decreased 154,798 thousand yen, or 19.9%, from one year earlier to 621,788 thousand yen due to the decline in the number of cases from one year earlier. Operating loss totaled 219,617 thousand yen, compared with operating loss of 141,091 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, the CRO business and the genetic diagnosis support business.

Segment sales for the first nine months increased 99,251 thousand yen, or 14.1%, from one year earlier to 802,278 thousand yen due to strong orders and sales of cell culture devices. Operating income totaled 3,360 thousand yen, compared with an operating loss of 174,755 thousand yen one year earlier.

Pharmaceuticals Business

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

There was an operating loss of 166,572 thousand yen, compared with an operating loss of 117,129 thousand yen one year earlier due to the development activities to obtain the pharmaceutical approval.

(2) Explanation of Financial Position

1) Assets, Liabilities and Net Assets

Total assets, liabilities and net assets at the end of the first nine months of the current fiscal year were as follows.

(Thousands of yen)

	FY12/2015	First nine months of FY12/2016	Change
Total assets	2,377,331	1,916,945	(460,385)
Total liabilities	885,713	870,322	(15,390)
Net assets	1,491,617	1,046,623	(444,994)

Total assets decreased 460,385 thousand yen from the end of the previous fiscal year to 1,916,945 thousand yen as of the end of the third quarter of the current fiscal year. It was mainly due to an increase in allowance for doubtful accounts, and decreases due to the collection of lease and guarantee deposits and sales of investment securities.

Total liabilities decreased 15,390 thousand yen from the end of the previous fiscal year to 870,322 thousand yen.

Net assets decreased 444,994 thousand yen from the end of the previous fiscal year to 1,046,623 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 Second Quarter of the Fiscal Year Ending December 31, 2016 [Japanese GAAP] that was announced on August 12, 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

As the Company sold all shares held in Tella Small Amount and Short term Insurance Inc. to an entity outside the Group, this company was excluded from the scope of consolidation in the third quarter of the current fiscal year.

(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

1) Application of Accounting Standard 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 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 nine months 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 nine months of the current fiscal year.

2) Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016

Following the revision of the Corporation Tax Act, the Company has applied 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 the current fiscal year, 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.

This change has no effect on the results of operations in the first nine months of the current fiscal year because there was no acquisition of facilities attached to buildings and structures on or after April 1, 2016.

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 nine months 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)	Third quarter of FY12/2016 (As of Sep. 30, 2016)
Assets		
Current assets		
Cash and deposits	899,069	913,565
Notes and accounts receivable-trade	334,846	362,280
Merchandise	2,328	4,216
Work in process	12,601	3,245
Raw materials	5,053	5,159
Prepaid expenses	40,046	27,376
Income taxes receivable	7,589	64
Deferred tax assets	2,533	2,213
Other	50,152	33,767
Allowance for doubtful accounts	-	(163,656)
Total current assets	1,354,221	1,188,233
Non-current assets		
Property, plant and equipment		
Buildings, net	285,057	247,320
Tools, furniture and fixtures, net	133,193	102,971
Leased assets, net	13,161	10,990
Total property, plant and equipment	431,412	361,281
Intangible assets		
Software	62,736	47,465
Goodwill	739	606
Right of using patent	13,663	9,521
Total intangible assets	77,139	57,593
Investments and other assets		
Investment securities	242,035	117,125
Long-term loans receivable	18,075	16,000
Lease deposits	176,721	111,047
Insurance funds	15,238	17,142
Deferred tax assets	1,249	954
Other	61,238	47,567
Total investments and other assets	514,557	309,837
Total non-current assets	1,023,109	728,712
Total assets	2,377,331	1,916,945

(Thousands of yen)

	FY12/2015 (As of Dec. 31, 2015)	Third quarter of FY12/2016 (As of Sep. 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	79,335	24,936
Current portion of bonds	20,000	-
Short-term loans payable	-	200,000
Current portion of long-term loans payable	172,360	172,360
Lease obligations	7,927	6,569
Outstanding claims	728	-
Policy reserve	1,388	-
Accounts payable-other	103,063	82,909
Income taxes payable	5,807	29,701
Deferred tax liabilities	648	-
Asset retirement obligations	12,016	-
Other	28,604	34,299
Total current liabilities	431,880	550,777
Non-current liabilities		
Long-term loans payable	333,030	203,760
Lease obligations	18,400	13,215
Long-term lease deposited	88,124	88,124
Asset retirement obligations	8,942	10,210
Deferred tax liabilities	5,335	4,235
Total non-current liabilities	453,832	319,545
Total liabilities	885,713	870,322
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)	(1,594,155)
Treasury shares	(282)	(282)
Total shareholders’ equity	1,433,264	970,795
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	4,411
Non-controlling interests	45,665	71,416
Total net assets	1,491,617	1,046,623
Total liabilities and net assets	2,377,331	1,916,945

(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 FY12/2015 (Jan. 1 – Sep. 30, 2015)	First nine months of FY12/2016 (Jan. 1 – Sep. 30, 2016)
Net sales	1,479,500	1,421,147
Cost of sales	786,852	750,566
Gross profit	692,647	670,580
Selling, general and administrative expenses	1,099,499	1,039,298
Operating loss	(406,851)	(368,717)
Non-operating income		
Interest income	1,100	324
Dividend income	450	225
Rent income of real estate	63,058	92,016
Subsidy income	-	9,933
Other	6,554	5,713
Total non-operating income	71,163	108,212
Non-operating expenses		
Head office transfer related cost	-	20,460
Interest expenses	6,168	5,980
Interest on bonds	273	109
Share of loss of entities accounted for using equity method	5,353	10,039
Foreign exchange losses	6	-
Rent cost of real estate	63,058	92,016
Share issuance cost	142	-
Guarantee commission	251	235
Other	18,121	1,109
Total non-operating expenses	93,375	129,952
Ordinary loss	(429,063)	(390,457)
Extraordinary income		
Gain on change in equity	-	1,765
Gain on sales of non-current assets	-	610
Gain on sales of investment securities	-	8,600
Gain on reversal of subscription rights to shares	20	660
Total extraordinary income	20	11,636
Extraordinary losses		
Loss on sales of shares of subsidiaries and associates	-	2,610
Loss on change in equity	7,480	-
Impairment loss	11,260	17,495
Loss on retirement of non-current assets	5,326	3,532
Loss on valuation of investment securities	-	5,373
Total extraordinary losses	24,068	29,011
Loss before income taxes	(453,112)	(407,831)
Income taxes-current	10,549	26,986
Income taxes-deferred	(7,703)	2,936
Total income taxes	2,845	29,923
Loss	(455,957)	(437,755)
Profit (loss) attributable to non-controlling interests	(6,781)	25,751
Loss attributable to owners of parent	(449,176)	(463,506)

Quarterly Consolidated Statement of Comprehensive Income

For the Nine-month Period

(Thousands of yen)

	First nine months of FY12/2015 (Jan. 1 – Sep. 30, 2015)	First nine months of FY12/2016 (Jan. 1 – Sep. 30, 2016)
Loss	(455,957)	(437,755)
Other comprehensive income		
Valuation difference on available-for-sale securities	13,781	(8,228)
Total other comprehensive income	13,781	(8,228)
Comprehensive income	(442,175)	(445,984)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(435,394)	(471,735)
Comprehensive income attributable to non-controlling interests	(6,781)	25,751

(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 nine months of FY12/2015 (Jan. 1 – Sep. 30, 2015)

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

	Reportable segment				Total	Adjustments	Amounts shown on quarterly consolidated statement of income
	Cell Medicine	Medical Support	Pharmaceuticals	Subtotal			
Net sales							
External sales	776,586	702,913	-	1,479,500	1,479,500	-	1,479,500
Inter-segment sales and transfers	-	113	-	113	113	(113)	-
Total	776,586	703,026	-	1,479,613	1,479,613	(113)	1,479,500
Segment loss	(141,091)	(174,755)	(117,129)	(432,975)	(432,975)	26,124	(406,851)

Notes: 1. The adjustment of 26,124 thousand yen to segment loss is an elimination for inter-segment transactions of 23,265 thousand yen and an adjustment of 2,858 thousand yen to non-current assets.

2. Segment loss is adjusted to be consistent with operating loss shown on the quarterly consolidated statement of income.

2. Information related to impairment losses of non-current assets for reportable segments

Significant impairment losses related to non-current assets

In the first nine months of FY12/2015, an impairment loss of 11,260 thousand yen was recorded in the Cell Medicine segment. The loss is the result of the impairment of a right to use a patent because of declining profitability due to a significant change in expected demand compared with when this right was acquired. The loss reflects the current outlook for using this patent and other factors.

II First nine months of FY12/2016 (Jan. 1 – Sep. 30, 2016)

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

	Reportable segment				Total	Adjustments	Amounts shown on quarterly consolidated statement of income
	Cell Medicine	Medical Support	Pharmaceuticals	Subtotal			
Net sales							
External sales	621,788	799,358	-	1,421,147	1,421,147	-	1,421,147
Inter-segment sales and transfers	-	2,920	-	2,920	2,920	(2,920)	-
Total	621,788	802,278	-	1,424,067	1,424,067	(2,920)	1,421,147
Segment profit (loss)	(219,617)	3,360	(166,572)	(382,829)	(382,829)	14,112	(368,717)

Notes: 1. The 14,112 thousand yen adjustment to segment profit (loss) includes an elimination for inter-segment transactions of 5,512 thousand yen and an adjustment of 8,599 thousand yen to non-current assets.

2. Segment profit (loss) is adjusted with operating loss shown on the quarterly consolidated statement of income.

2. Information related to impairment losses of non-current assets for reportable segments

Significant impairment losses related to non-current assets

In the first nine months of FY12/2016, an impairment loss of 11,734 thousand yen was recorded in the Cell Medicine segment because there are no prospects for earnings we original planned. An impairment loss of 5,760 thousand yen was recorded in the Medical Support Business. The loss is the result of the impairment of a right to use a patent because of declining profitability due to a significant change in expected demand compared with when this right was acquired.

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.