



GENE TECHNO SCIENCE

November 6, 2017

## Summary of Non-consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2018

[Japanese GAAP]

Company name	: Gene Techno Science Co.,Ltd.	Listing: Tokyo Stock Exchange
Stock code	: 4584	URL: <a href="http://www.g-gts.com">http://www.g-gts.com</a>
Representative	: Masaharu Tani, President	
Contact	: Masakuni Ueno, Executive Officer, General Manager of Administration	
	Tel: +81-11-876-9571	
Scheduled filing date of the quarterly report		: November 9, 2017
Scheduled starting date of payment of dividend		: -
Supplemental briefing materials on the quarterly financial results		: Yes
Briefing of the quarterly financial results		: Yes (for institutional investors and analysts)

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

### 1. Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2018 (April 1, 2017 – September 30, 2017)

(1) Results of operations (Percentages shown for net sales and incomes represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Second quarter of the fiscal year ending March 2018	446	Δ8.9	Δ431	-	Δ427	-	Δ428	-
Second quarter of the fiscal year ended March 2017	490	Δ38.0	Δ731	-	Δ757	-	Δ803	-

	Net income for the quarter per share	Diluted net income for the quarter per share
	Yen	Yen
Second quarter of the fiscal year ending March 2018	Δ44.77	-
Second quarter of the fiscal year ended March 2017	Δ92.85	-

(Note) 1. Effective October 1, 2016, a stock split was conducted, and two shares of stock per share were distributed. Net asset and net loss per share calculations are conducted based on the assumption that the split was conducted at the beginning of the previous fiscal year ended Mar. 31, 2017.

2. There is no reporting on under the diluted net income for the quarter per share because as it is a net loss for the quarter per share, even though there exists a number of dilutive shares.

## (2) Financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2017	3,257	3,077	93.6
As of March 31, 2017	3,706	3,500	93.8

(Reference) Shareholders' equity Sep. 30, 2017: 3,048 million yen Mar. 31, 2017: 3,476 million yen

## 2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2017	-	0.00	-	0.00	0.00
Fiscal year ending Mar. 31, 2018	-	0.00			
Fiscal year ending Mar. 31, 2018 (forecast)			-	0.00	0.00

(Note) Changes to the most recent forecasted dividend amount: None

## 3. Forecast for the Fiscal Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(Percentages shown represent increases/decreases from the previous quarter)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,166	7.1	Δ977	-	Δ992	-	Δ994	-	Δ103.96

(Note) Changes to the most recent forecasted dividend amount: None

**\* Notes**

(1) Accounting treatment specific to the financial statements of the quarter : None

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others : None

2) Changes in accounting policies other than 1) above : None

3) Changes in accounting-based estimates : None

4) Restatements : None

(3) Number of outstanding shares (common stock)

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

At the end of the second quarter of the fiscal year ending March 31, 2018 : 9,567,923 shares

As of Mar. 31, 2017 : 9,567,923 shares

2) Number of treasury shares at the end of period

At the end of the second quarter of the fiscal year ending March 31, 2018 : - shares

As of Mar. 31, 2017 : - shares

3) Average number of shares outstanding during the period (the cumulative quarter)

At the end of the second quarter of the fiscal year ending March 31, 2018 : 9,567,923 shares

At the end of the second quarter of the fiscal year ended March 31, 2017 : 8,658,751 shares

(Note) Effective October 1, 2016, a stock split was conducted, and two shares of stock per share were distributed. Net asset and net loss per share calculations are conducted based on the assumption that the split was conducted at the beginning of the previous fiscal year ended Mar. 31, 2017.

\* The non-consolidated quarterly financial statements are not subject to any review.

Cautionary statement with respect to forward-looking statements, and other special items

(Notes to information regarding future)

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and the information available to Gene Techno Science at the time these materials were created. These materials on future performances are not promises by the Company. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to "1. Qualitative information for this quarter, (3) Explanation of future information, such as future business forecasts" on page 3 of the attachment for forecast assumptions and notes of caution for usage.

(How to obtain supplemental financial information for the quarter)

Gene Techno Science plans to hold a briefing meeting on financial results for institutional investors and securities analysts on Thursday, November 16, 2017. Materials distributed at this meeting will be available on the Company's website immediately thereafter.

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## 1. Qualitative information for this quarter

### (1) Explanation of business performance

During the cumulative second quarter, the Japanese economy has slowly started to see a recovery in consumer spending due to governmental economic policies. Employment and salary conditions have improved, and economic conditions have also started getting better. The future of the overall world economy, however, remains still unclear as there are increasing geopolitical concerns about the situation with North Korea and the political direction of the U.S. government.

Related to our company's pharmaceutical business, the "Basic Policy on Economic and Fiscal Management and Reform 2017" was approved by the cabinet. According to this policy, the government will expand its support for the development of biological drugs while aiming to double the number of biosimilar products by the end of year 2020 in order to control increasing medical costs in response to an aging society. The government is also aiming to increase the usage of generics to 80% by September of 2020, and is continuously discussing possible measures to promote generics. According to the "Changes in Medical Care Expenditure for FY2016" issued by the Ministry of Health, Labour and Welfare, the total expenditure for medical care in FY2016 was 41.3 trillion yen. Even though the total amount was lower than the amount of FY2015 by about 200 billion yen, it was still higher than all other past years, and this result reminded us of the demand for biosimilars.

Under these circumstances, our company's operations continue to be stable as biosimilar sales of the neutropenia medicine "Filgrastim BS" by Fuji Pharma Co., Ltd. and Mochida Pharmaceutical Co., Ltd. are going well. As a part of the continuation of the biosimilar business, in September 2016, we started the Phase III clinical trial for the biosimilar of Darbepoetin alpha in Japan, which we have been developing together with Sanwa Kagaku Kenkyusho Co., Ltd., and in December 2016, we entered into a biosimilar business alliance contract with Mochida Pharmaceutical Co., Ltd. in the field of cancer treatment and started working toward obtaining approvals on the manufacturing and sales of these biosimilars. We entered into a capital and business alliance contract in March 2017 with ITOCHU CHEMICAL FRONTIER Corporation to develop new biosimilar products. In September of this quarter, business operations in collaboration with Changchun Changsheng Life Sciences Ltd. for an adalimumab biosimilar have started in China; our company is working on various projects both domestically and overseas. In our company, we are striving to continue to steadily develop our existing products and launch new products in order to speedily and reliably provide quality biosimilars to patients at a lower cost, as shown below:

- 1) Development of "Pegfilgrastim (PEG-G-CSF) biosimilar" that is the next generation of Filgrastim (G-CSF)
- 2) Domestic development collaboration on a biosimilar of Darbepoetin alpha with Sanwa Kagaku Kenkyusho Co., Ltd.
- 3) Business alliance with Mochida Pharmaceutical Co., Ltd. for biosimilars for cancer treatments
- 4) Capital and business alliance with Senju Pharmaceutical Co., Ltd. for biosimilars in ophthalmology
- 5) Business collaboration of the adalimumab biosimilar with Changchun Changsheng Life Sciences Ltd.
- 6) Upgrades and expansion of other biosimilars under development

In new biologics business, we were successful in creating a new antibody that can inhibit neovascularization through research and development of next-generation antibody drugs. A patent application for this particular antibody was filed in September 2017 as a great candidate for a drug that is effective for ophthalmic diseases as well as being an antitumor agent. In addition, we are conducting a nucleic acid collaboration with GeneDesign, Inc., which became a part of the Ajinomoto Group in December 2016, to explore opportunities in the use of nucleic acid for medicines. We are also working toward gaining new technologies, such as exosome for which we applied for a patent in cooperation with the National Cancer Center.

Also, in the field of regenerative medicines, which we initiate to explore as our new business field we entered into a capital and business alliance contract with Japan Regenerative Medicine Co., Ltd. (JRM), a fellow member of the Noritsu Koki Group, in October 2016 to commercialize regenerative medicine using cardiac stem cells in development by JRM and together as a whole group, we are working on expanding the regenerative medicine business. In September 2017, the research collaboration project with Juntendo University on new immunodepression treatments utilizing immunologic tolerance induction entered into a service agreement with MEDINET Co., Ltd. to have them design a platform to process cells in order to

practically implement the technology gained through the project and we are working toward a clinical trial which is the next step in the project. In May 2016, our company co-funded with venture capital a regenerative medicine firm, Minerva Medica Co., Ltd., together with local businesses and a financial services company in Hokkaido. Minerva Medica and Sapporo Medical University entered into a research collaboration agreement for treatment of diabetic nephropathy using patients' own bone marrow mesenchymal stem cells. Our company is making steady business progress in the field of regenerative medicines.

In order to strengthen our business foundation to support the often lengthy development of medicines, we are exploring business opportunities in the healthcare industry, such as medical equipment and diagnostic medication.

As a result, the sales amount was 446,961 thousand yen (a 8.9% decrease compared to the same quarter in the previous year), operational loss was 431,665 thousand yen (operational loss for the same quarter in the previous year was 731,957 thousand yen), ordinary loss was 427,918 thousand (ordinary loss for the same quarter in the previous year was 757,346 thousand yen) and net loss for the quarter was 428,311 thousand yen (net loss for the same quarter in the previous year was 803,928 thousand yen).

(2) Explanation of financial conditions

1) Assets, liabilities and shareholders' equity

(Changes in assets)

The balance of total assets at the end of the second accounting quarter was 3,257,066 thousand yen, which was lower than the balance at the end of the previous year by 12.1%. This is mainly due to a decrease in cash and cash deposits by 493,650 thousand yen and a decrease in accounts receivable by 131,066 yen, while advance payments increased by 157,201 thousand yen. The decrease in cash and cash deposits and increase in advance payments are mainly due to payments associated with the development of biosimilar products.

(Changes in liabilities)

The balance of total liabilities at the end of the second accounting quarter was 179,696 thousand yen, which was lower than the balance at the end of the previous year by 12.8%. This is mainly due to a decrease in corporate tax payable by 26,165 thousand yen.

(Changes in shareholders' equity)

The equity balance at the end of the second accounting quarter was 3,077,370 thousand yen, which was lower than the balance at the end of the previous year by 12.1%. This is mainly due to a net loss of 428,311 thousand yen for the quarter.

2) Cash flows

Cash and cash equivalents (collectively, "cash" hereafter) at the end of the second accounting quarter decreased by 493,650 thousand yen from the balance at the end of the previous year, with a balance of 1,886,245 thousand yen.

The status and factors for each cash flow activity for the second cumulative quarter are as follows:

(Cash flows from operating activities)

Cash outflows from operating activities was 443,650 thousand yen (outflows for the same quarter of the previous year were 708,106 thousand yen). This is mainly due to a recording of net loss before tax for the quarter of 427,361 thousand yen and an increase in advance payments by 157,201 thousand yen, while there was a decrease in accounts payable of 131,066 yen.

(Cash flows from investing activities)

Cash outflows from investing activities was 50,000 thousand yen (outflows for the same quarter of the previous year were 124 thousand yen). This is due to purchases of investment securities.

(Cash flows from financing activities)

There was no cash increase or decrease from financing activities (inflows for the same quarter of the previous year were 2,818,784 thousand yen).

(3) Explanation of business forecasts

There is no change to the future business forecasts announced as of May 12, 2017.

## 2. Financial statements for the quarter and notes to the financial statements

## (1) Balance sheet at the end of the quarter

	(thousand yen)	
	At the end of previous fiscal year (March 31, 2017)	At the end of second accounting quarter (September 30, 2017)
<b>Assets</b>		
Current assets		
Cash and deposits	2,379,896	1,886,245
Accounts receivable	587,375	456,309
Advance payments	414,949	572,151
Other	39,677	7,910
Total current assets	3,421,899	2,922,617
Non-current assets		
Tangible fixed assets	1,802	1,682
Intangible fixed assets	171	152
Investments and other		
Investment securities	275,864	326,194
Other	6,487	6,421
Total investments and other	282,351	332,615
Total non-current assets	284,324	334,449
Total assets	3,706,224	3,257,066
<b>Liabilities</b>		
Current liabilities		
Corporate and other taxes payable	27,115	950
Other	162,242	162,709
Total current liabilities	189,358	163,659
Non-current liabilities		
Allowance for retirement benefits	14,880	14,040
Other	1,739	1,996
Total non-current liabilities	16,619	16,036
Total liabilities	205,978	179,696
<b>Shareholders' equity</b>		
Shareholders' capital		
Common stock	4,194,243	100,000
Additional paid-in capital	4,097,510	3,372,985
Retained earnings ( $\Delta$ Accumulated deficit)	$\Delta$ 4,818,768	$\Delta$ 428,311
Total shareholders' equity	3,472,985	3,044,673
Valuation, translation adjustments and others		
Valuation difference on available-for-sale securities	3,872	3,945
Total valuation, translation adjustments and others	3,872	3,945
Equity warrant	23,389	28,751
Total shareholders' equity	3,500,246	3,077,370
Total liabilities and shareholders' equity	3,706,224	3,257,066

(2) Income statement for the quarter  
(Income statement for the cumulative quarter)

(thousand yen)

	For the cumulative quarters (from April 1 to September 30, 2016)	For the cumulative quarters (from April 1 to September 30, 2017)
Gross sales	490,793	446,961
Cost of goods sold	138,140	154,570
Gross profit	352,653	292,391
Selling, general and administrative expenses		
Research and development expenses	862,962	500,107
Other expenses	221,647	223,949
Total selling, general and administrative expenses	1,084,610	724,056
Operating loss ( $\Delta$ means loss)	$\Delta 731,957$	$\Delta 431,665$
Non-operating income		
Interest income	62	79
Income from sale of materials/equipment	—	3,380
Contract fee income	200	—
Foreign exchange gain	420	198
Miscellaneous income	92	88
Total non-operating income	775	3,746
Non-operating expenses		
Interest expense	2,631	—
Stock delivery expense	17,473	—
Miscellaneous expense	6,059	—
Total non-operating expenses	26,164	—
Ordinary loss ( $\Delta$ means loss)	$\Delta 757,346$	$\Delta 427,918$
Extraordinary income		
Gain from expired stock warrants	—	557
Total extraordinary income	—	557
Extraordinary loss		
Loss on valuation of investment securities	45,371	—
Total extraordinary loss	45,371	—
Net loss for the quarters before tax ( $\Delta$ means loss)	$\Delta 802,718$	$\Delta 427,361$
Corporate, residential and enterprise taxes	1,210	950
Total corporate and other taxes	1,210	950
Net loss for the quarters ( $\Delta$ means loss)	$\Delta 803,928$	$\Delta 428,311$



## (3) Statement of cash flows for the quarter

	(thousand yen)	
	For the cumulative quarters (from April 1 to September 30, 2016)	For the cumulative quarters (from April 1 to September 30, 2017)
<b>Cash flows from operating activities</b>		
Net loss for the quarter ( $\Delta$ means loss)	$\Delta 802,718$	$\Delta 427,361$
Depreciation expenses	173	139
Changes in allowance for retirement benefits ( $\Delta$ means decrease)	1,350	$\Delta 840$
Valuation gain/loss of investment securities ( $\Delta$ means gain)	45,371	—
Interest or dividends received	$\Delta 62$	$\Delta 79$
Interest paid	2,631	—
Stock delivery expense	17,473	—
Gain from expired stock warrants	—	$\Delta 557$
Changes in accounts receivable ( $\Delta$ means increase)	21,060	131,066
Changes in advance payments ( $\Delta$ means increase)	147,744	$\Delta 157,201$
Changes in accounts payable ( $\Delta$ means decrease)	$\Delta 11,167$	—
Changes in advance receipts ( $\Delta$ means decrease)	$\Delta 125,000$	—
Other changes	$\Delta 497$	13,524
Sub-total	$\Delta 703,640$	$\Delta 441,310$
Interest and dividends received	62	79
Interest paid	$\Delta 2,631$	—
Payment of corporate and other taxes	$\Delta 1,897$	$\Delta 2,420$
<b>Cash flows from operating activities</b>	<b><math>\Delta 708,106</math></b>	<b><math>\Delta 443,650</math></b>
<b>Cash flows from investing activities</b>		
Purchase of investment securities	—	$\Delta 50,000$
Payment for guarantee deposits	$\Delta 124$	—
<b>Cash flows from investing activities</b>	<b><math>\Delta 124</math></b>	<b><math>\Delta 50,000</math></b>
<b>Cash flows from financing activities</b>		
Net increase/decrease in short-term borrowings ( $\Delta$ means decrease)	$\Delta 306,720$	—
Issuance of stocks	1,990,634	—
Issuance of stocks through exercising stock warrant	1,134,869	—
<b>Cash flows from financing activities</b>	<b>2,818,784</b>	<b>—</b>
Effect of exchange rate changes on cash and cash equivalents	—	—
Increase/decrease in cash and cash equivalents ( $\Delta$ means decrease)	2,110,553	$\Delta 493,650$
Cash and cash equivalents at the beginning of the period	817,342	2,379,896
Cash and cash equivalents at the end of the quarter	2,927,895	1,886,245

(4) Notes to the financial statement for the quarter

(Notes on going concern assumption)

No applicable matters to be reported.

(Notes on significant changes to shareholders' equity)

In accordance with a decision made during 17<sup>th</sup> shareholders' meeting held on June 28, 2017, the company adopted an accounting treatment to transfer 4,094,243 thousand yen of its common stock and 724,525 thousand yen of capital reserve to other paid-in capital on August 1, 2017. An increased amount of 4,818,768 thousand yen in other paid-in capital was then transferred to retained earnings to supplement losses. As a result, balances of common stock and additional paid-in capital at the end of this accounting quarter were 100,000 thousand and 3,372,985 thousand yen, respectively.