



Gene Techno Science Co., Ltd.

New Financing Arrangements and Investment in Heartseed Inc.

September 30, 2019



Cautionary Statement

This information material is provided for understanding Gene Techno Science (“GTS”), not for soliciting investment in GTS shares.

Information provided in this material may contain so-called “forward looking statements”. These statements are based on current expectations, forecasts and assumptions that are subject to risks and uncertainties, which could cause actual outcomes and results to differ materially from these statements. Risks and uncertainties include success ratio of R&D projects, new regulations, and rules, relations with partners in the future, etc.



1. New Financing Arrangements

2. Investment in Heartseed Inc.

Invest in Heartseed Inc., research and development company for myocardial regenerative medicine using iPS cells.



1. **New Financing Arrangements**

Placement of private offering of convertible bond and new stock acquisition rights

Changes in Financing Arrangements

The following measures to be implemented on October 16, 2019

- ✓ **Acquisition and cancellation** of current stock acquisition rights
- ✓ **Issuance** of convertible bond with stock acquisition rights and stock acquisition rights

Acquisition and Cancellation

6th series of stock acquisition right

Allotment	: Daiwa Securities Co.Ltd.
Status of exercise	: 6,282 / 15,000 units
Remaining	: 8,718 units (1,743,600 shares, 6.31% vs. all outstanding shares)
Paid-in	: 1,018million JPY (as of today)
Price adjustment	: each exercise (moving strike warrant)

Issuance

2nd series of convertible bond with stock acquisition rights /9th series of stock acquisition rights

Allotment	: CVI Investments, Inc.
Issue amount and period	: Convertible bond Approx. 600million JPY/0 coupon/(3yrs) : Stock acquisition rights Approx. 540 million JPY (4yrs)
Potential dilution rate	: 5.57% in total
Price Adjustment	: every 6 months

Reason for Changes in Financing Arrangement

Business Strategy

- ✓ Biosimilar business is likely to become profitable from the fiscal year ending Mar.2022 on the basis of funds obtained from the exercise of the 6th stock acquisition rights
- ✓ To fully promote the new biotech business (cell therapy) centering on stem cells from human exfoliated deciduous teeth using the cell bank run by ACTE, a wholly-owned subsidiary, the funding method will be changed to fit the strategy.

Funding Method

- ✓ Possible to secure certain amount of up-front funds by issuing convertible bonds
- ✓ Stock acquisition rights are designed more likely to be exercised when the stock price rises as business progress is well evaluated from the market
- ✓ Avoid immediate and unnecessary dilution and consider stock supply/demand and shareholders value

Profile of Allottee

- ✓ U.S. Institutional Investor CVI / Heights Capital Management, Inc. (under Susquehanna International Group) is well-versed in the biotechnology business based on previous investment experiences.
- ✓ Expressed intention to provide financial support from a medium- to long-term perspective with the expectation of improving our corporate value based on the understanding of the current situation and business strategy policy

■ Points to note for this arrangements

- ✓ Due to the lock-up provision, no other funding with new equity issuance will be allowed for 270 days after the implementation. Even after the above period, as long as CB/stock acquisition rights remain, stock-price-linked (variable-rate) funding will not be conducted, however, excluding third-party allotment with long-term strategic partners.
- ✓ For the convertible bonds with stock acquisition rights, the prevailing conversion price is not adjusted upward, therefore dilution may occur at a lower stock price when the stock price moves downward.
- ✓ If the stock price moves below the exercise price of the stock acquisition rights, the amount of funding will be lower than originally planned.

Objectives of Funds

Changes in use of funds in accordance with the changes in business strategy

(unit : million JPY)	6th Series of Stock Acquisition Rights		Allocated	New	Scheduled expenditure
	Purpose of use			Scheduled	
	original	revised			
Biosimilar Business R&D costs for 3 products among GBS-002~011	1,350	1,018	518	—	Apr. 2019 ∩ Dec. 2022
Biosimilar Business R&D costs for 1~2 products in pipeline	650	—	—	—	—
New Biologics/Cell Therapy Business R&D costs for existing biologics, license-in biologics, expansion of new biotech	1,059	—	—	—	—
New Biologics/New Biotech Business (Cell Therapy) R&D costs related to ongoing projects	—	—	—	585	Oct. 2019 ∩ Jun. 2020
New Biologics/New Biotech Business (Cell Therapy) R & D costs to expand and promote new projects	—	—	—	530	Oct. 2019 ∩ Mar. 2022

Overview of Financing Methods

2nd series of convertible bond with stock acquisition rights		9th series of stock acquisition rights	
Closing Date	October 16, 2019	Closing Date	October 16, 2019
Number of issuance	30 units	Number of issuance	7,298 shares
Issue amount	Convertible bond : JPY600,000,000 No payment is required in exchange for stock acquisition rights.	Issue amount	JPY479 per stock acquisition right
Conversion price	Reference price : JPY740 Floor price : JPY370	Exercise price	Reference price : JPY740 Floor price : JPY370
Number of dilutive shares	810,600 shares maximum at cap rate(2.93%) 1,621,200 shares maximum at floor rate (5.86%) () : against outstanding shares (30th Sep)	Number of dilutive shares	729,800 shares (2.64%) No change in the number of dilutive shares at either the reference price or floor price
Total amount of funds procured	JPY600,000,000	Total amount of funds procured	JPY543,547,742 *Including the total issue amount of Stock Acquisition Rights (JPY3,495,742).
Terms and conditions for price adjustment	6 months after the closing date, and semiannually thereafter, the Conversion Price will be adjusted to the lesser of either; (i) 91% of the then prevailing market price, the average of the two lowest volume weighted average prices for the common shares during the 15 trading day period immediately preceding the applicable date (ii) the prevailing conversion price Converted or redeemed every 6 months (however, redemption will only be made when the conversion price is below the floor price).	Terms and conditions for price adjustment	6 months after the closing date, and semiannually thereafter, the Conversion Price will be adjusted to the lesser of either; (i) 90% of the then prevailing market price, the average of the two lowest volume weighted average prices for the common shares during the 15 trading day period immediately preceding the applicable date (ii) the prevailing exercise price
Issuing Method	CVI Investments, Inc. (Private Offering)	Issuing Method	CVI Investments, Inc. (Private Offering)
Coupon/ Timeline	0% / Maturity Date : October 31, 2022		
Redemption price	JPY 100 per face value of JPY100		



2. Investment in Heartseed Inc.

Investment in Heartseed Inc.

- Established in Nov 2015 as a venture company spun out from Keio University
- Aim to deliver fundamental treatment to patients with severe cardiac failure through “myocardial regenerative medicine”.
- Developed technology for generating ventricular cardiomyocytes differentiated and induced from iPS cells to supply as highly purified regenerative medicine products for patients with severe cardiac failure, and is currently working toward commercialization.

Investment in Heartseed, a promising regenerative medicine venture, and explore the possibility of collaboration through the technologies of two companies.

General Information	Established	November 30, 2015		
	Business	Myocardial regenerative medicine using iPS cells		
	Capital	1,800million JPY (as of Aug. 31, 2019)		
	Location	HQ	12-9, Daikyo-cho, Shinjuku-ku, Tokyo 160-0015, JAPAN	
Management	Directors	Director, CEO	Keiichi Fukuda	
		Director, COO	Kikuo Yasui	
		Director, R&D	Takumi Akiyama	
	Outside Director	Yutaro Kasai, Toshiharu Furukawa		
	Auditor	Tomoyuki Kikugawa		
Share holders	Founders / Employees / Angel Bridge / Astellas Venture Management / Shibuya Corp.			

GTS Cell Therapy Platform

Cardiac stem cells

Stem cells from human exfoliated deciduous teeth

Heartseed iPS cells

Gene Techno Science



***Biotech Engineering Company,
striving for value creation***