

Conference Call on Q1 FY2019 Results



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August 1, 2019

Santen's Values and Mission Statement

Values

天機に参与する

*Tenki ni sanyo suru*¹

- “Exploring the secrets and mechanisms of nature in order to contribute to people’s health”**

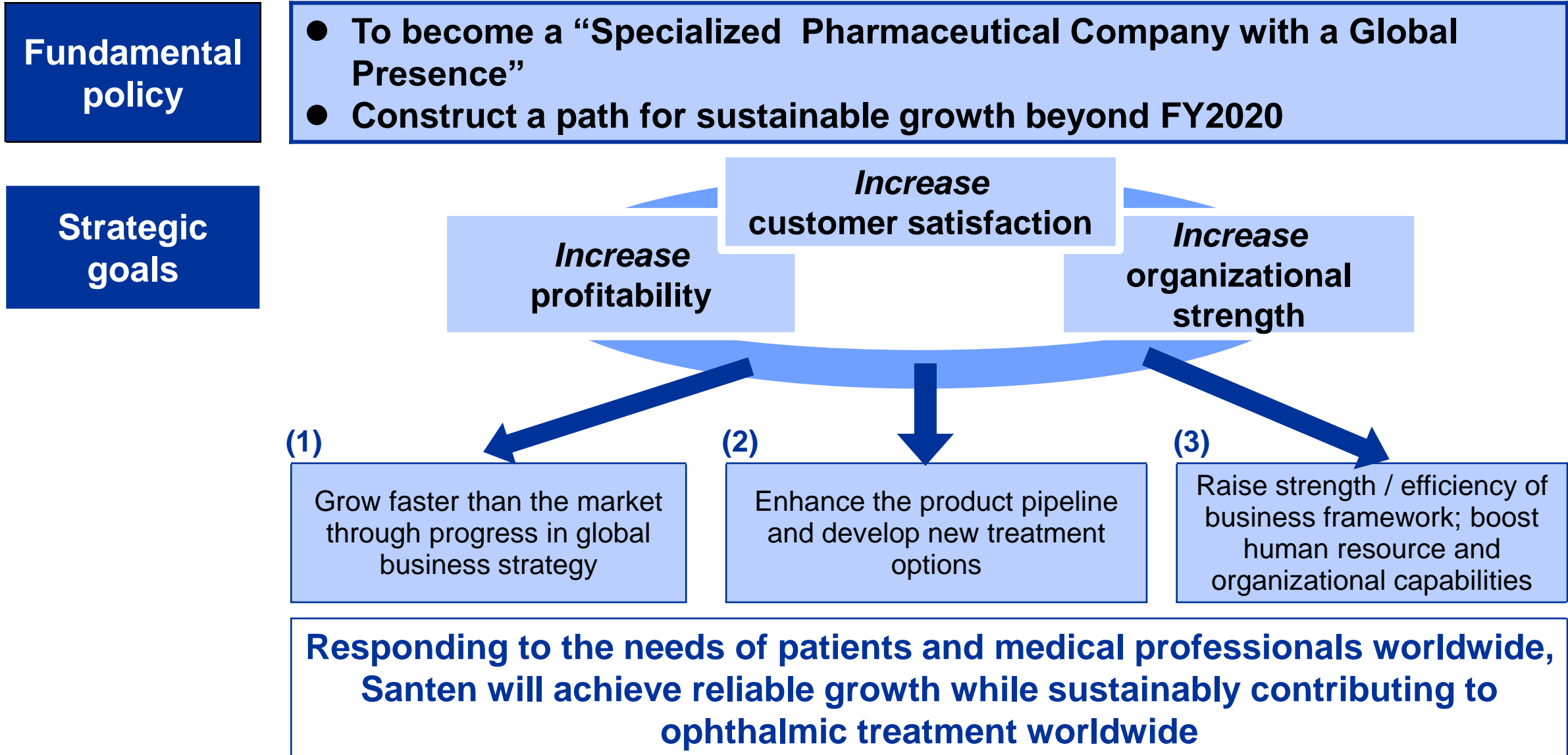
Santen’s original interpretation of a passage from chapter 22 of *Zhongyong (The Doctrine of the Mean)* by Confucius.

We think carefully about what is essential, decide clearly what we should do, and act quickly.

Mission Statement

By focusing on ophthalmology, Santen develops unique scientific knowledge and organizational capabilities that contribute to the well-being of patients, their loved ones and consequently to society.

MTP2020 Fundamental Policy and Strategic Goals



Q1 FY2019 Highlights

- **Strong start toward achievement of FY2019 full-year forecast**
 - Revenue: 59.1 bil JPY (+2.7 bil JPY, +4.7%)
 - Core operating profit: 12.8 bil JPY (+1.1 bil JPY, +9.6%)

- **Achieved robust overseas growth, with particular strength in Asia (+24.7%, JPY base); Overseas sales ratio now exceeds 35%**

- **Successful preparations for growth in U.S. including distribution agreement with Glaukos for *PRESERFLO MicroShunt***

- **Continuing focus on the penetration of new products in Japan such as *Eybelis* and *LENTIS Comfort***

Q1 FY2019 Financial Results ended June 30, 2019

Q1 FY2019 Financial Overview (year-on-year comparisons)

Achieved higher revenue and core operating profit with strong overseas growth

(JPY billions)	FY2018	FY2019	
	Q1 actual	Q1 actual	YoY
Core basis			
Revenue	56.5	59.1	4.7%
COGS	-23.0	-24.1	4.8%
Gross margin	33.5	35.0	4.6%
SGA	-16.2	-16.0	-0.8%
R&D expenses	-5.6	-6.2	9.9%
OP	11.7	12.8	9.6%
Net profit	8.6	9.7	12.1%
IFRS			
OP	10.0	9.2	-7.7%
Net profit	6.9	6.4	-6.7%
USD	108.87	109.86	-0.9%
EUR	129.57	123.06	5.0%
CNY	17.01	16.14	5.1%

+ : JPY appreciation, - : JPY depreciation

Revenue

Japan: Steady revenue on continued growth of key products and new products launches

Overseas: Continued strong growth, particularly Asia

Consolidated total growth: 2.7 bil JPY (+4.7%)

Core operating profit

Continuous growth in overseas business

Cost optimization in each business

Consolidated total growth: 1.1 bil JPY (+9.6%)

IFRS Operating profit and net profit

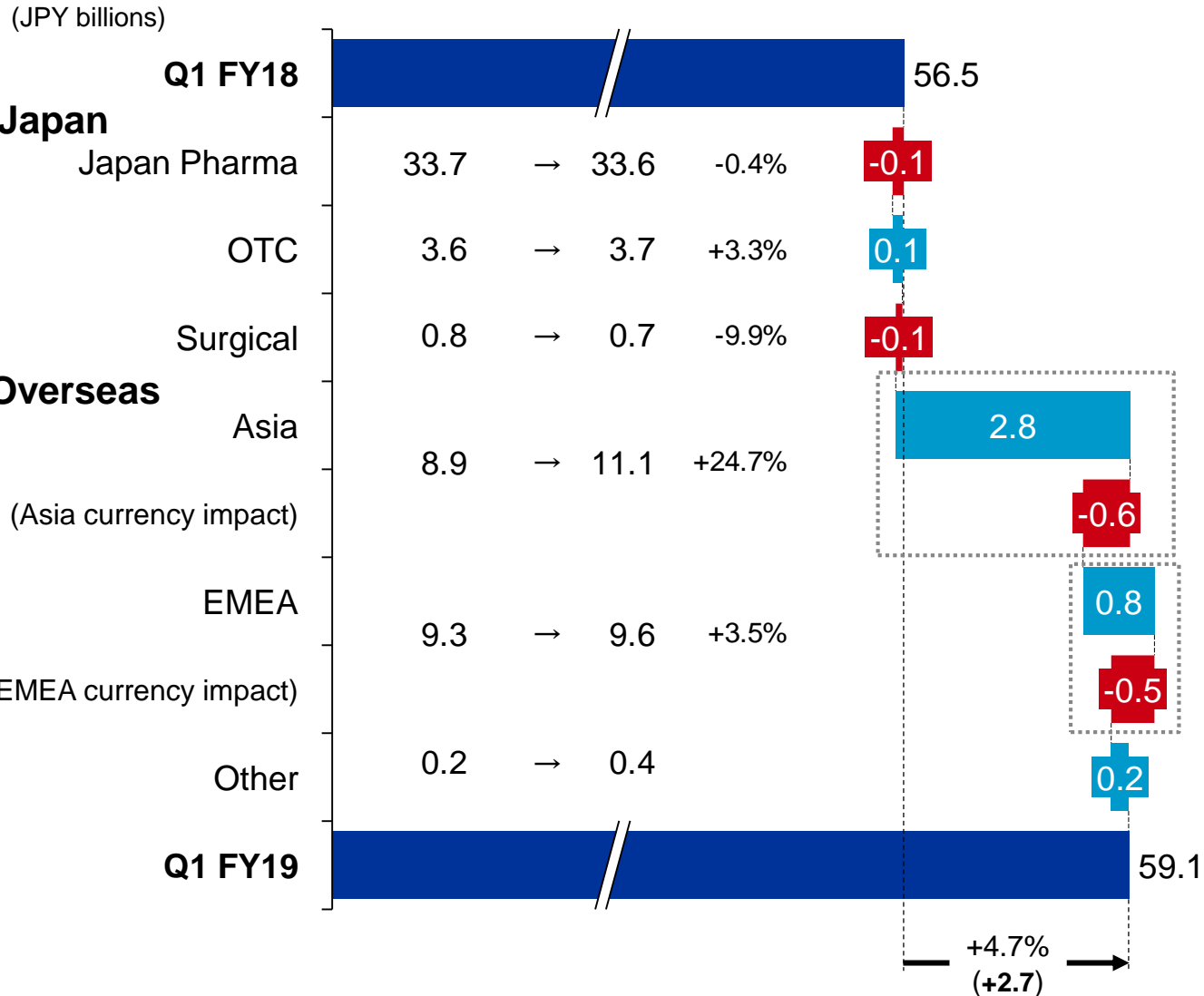
Due to commencement of amortization of intangible assets on *PRESERFLO MicroShunt*, and one-time expense from the change in fair value of contingent payment due to change of timing and probability of such payment on InnFocus acquisition regarding *PRESERFLO MicroShunt* with the development progress and the exclusive U.S. distribution agreement with Glaukos

Operating profit change: -0.8 bil JPY (-7.7%)

Net profit change: -0.5 bil JPY (-6.7%)

Q1 FY2019 Revenue

Higher revenue from overseas business growth more than offset negative FX impact



Japan business

Japan pharma	Continuous growth of <i>Eylea</i> * (+8.4%), <i>Diquas</i> (+7.4%) Progress in market penetration of <i>Eybelis</i> , newly launched in November 2018
OTC	Good revenue growth mainly in premium products for domestic market
Surgical	In April, started official sales of new IOL product, <i>LENTIS Comfort</i> , which provides comfortable vision across medium and long distances

Overseas business

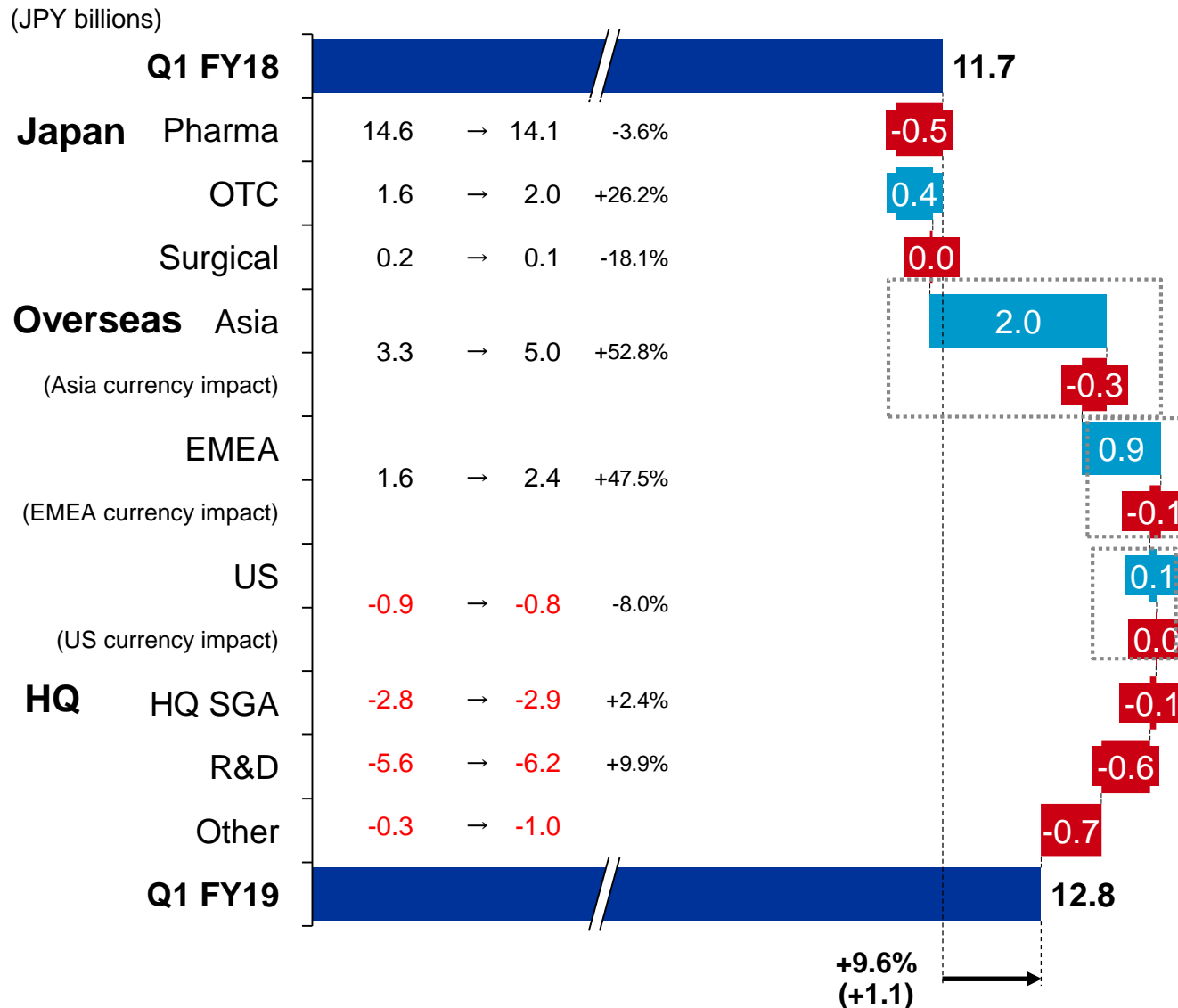
Asia	Continued strong revenue growth of over 20% broadly across the region JPY China: +26.3%, Korea: +27.0% Local currency China: +33.1%. Korea: +39.4% Asia region: 9 launches, 2 approvals Together with existing products, supporting sustainable future growth
EMEA	Strong growth of <i>Ikervis</i> in Germany and UK, and glaucoma products in major countries more than offset the negative FX impact; EUR revenue grew 9.0%

*Eylea**: Co-promoted product of Bayer Yakuhin, Ltd. (MAH)

	Q1 FY18	Q1 FY19
USD	JPY 108.87	JPY 109.86
EUR	JPY 129.57	JPY 123.06
CNY	JPY 17.01	JPY 16.14

Q1 FY2019 Core Operating Profit

Strong overseas business growth and group-wide cost optimization resulted in approx. 10% growth



Japan business

Japan pharma: Cost optimization efforts partially mitigated the negative impact of COGS ratio increase from product mix

Overseas business

Asia: Significantly higher with revenue growth

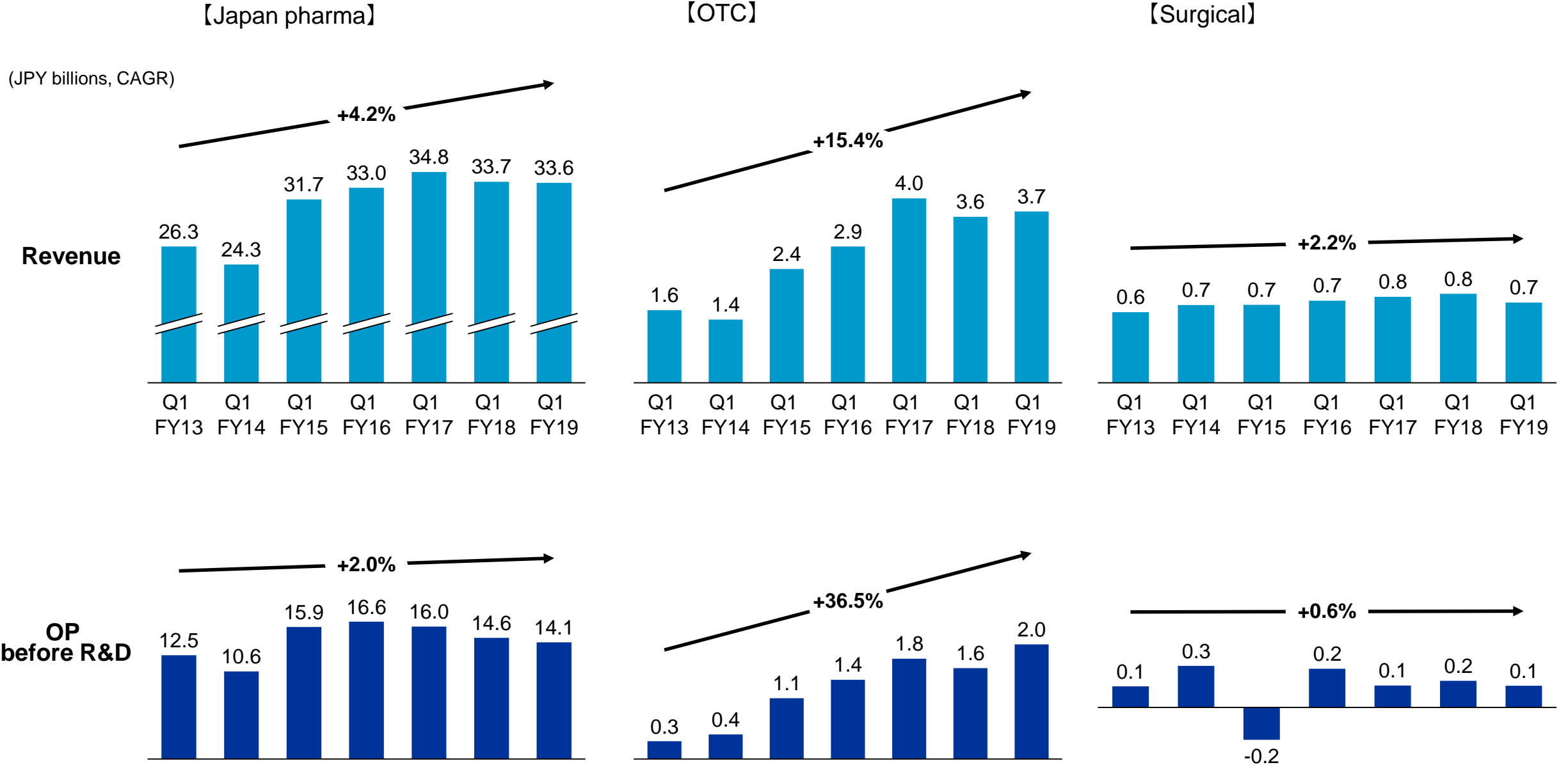
EMEA: Achieved increase in profit with revenue growth in key countries, Russia, Northern Europe and cost optimization efforts

R&D expenses

Increased mainly from the start of U.S. clinical trials for DE-109 and DE-117

	Q1 FY18	Q1 FY19
USD	JPY 108.87	JPY 109.86
EUR	JPY 129.57	JPY 123.06
CNY	JPY 17.01	JPY 16.14

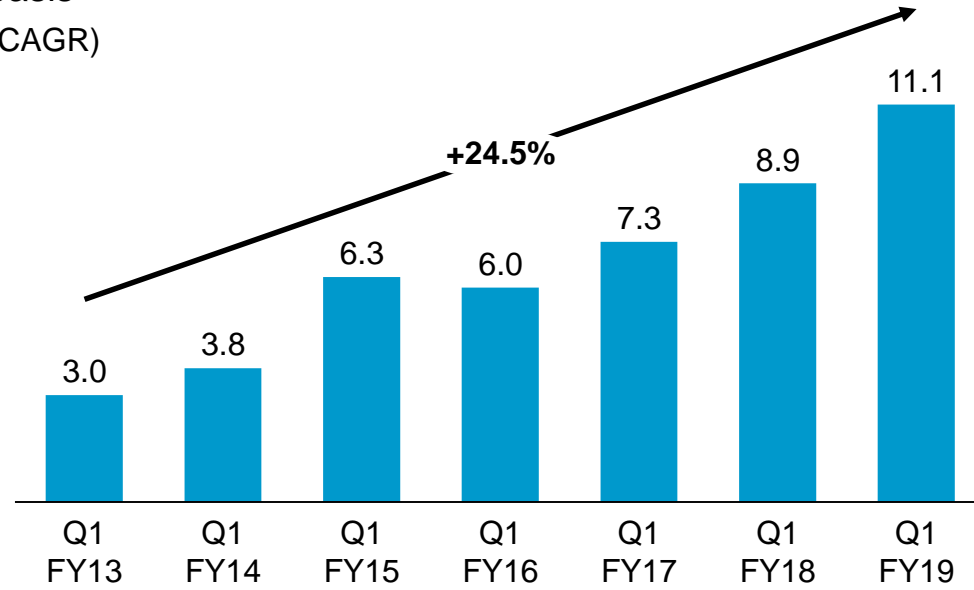
Performance by Business (Japan)



Performance by Business (Asia)

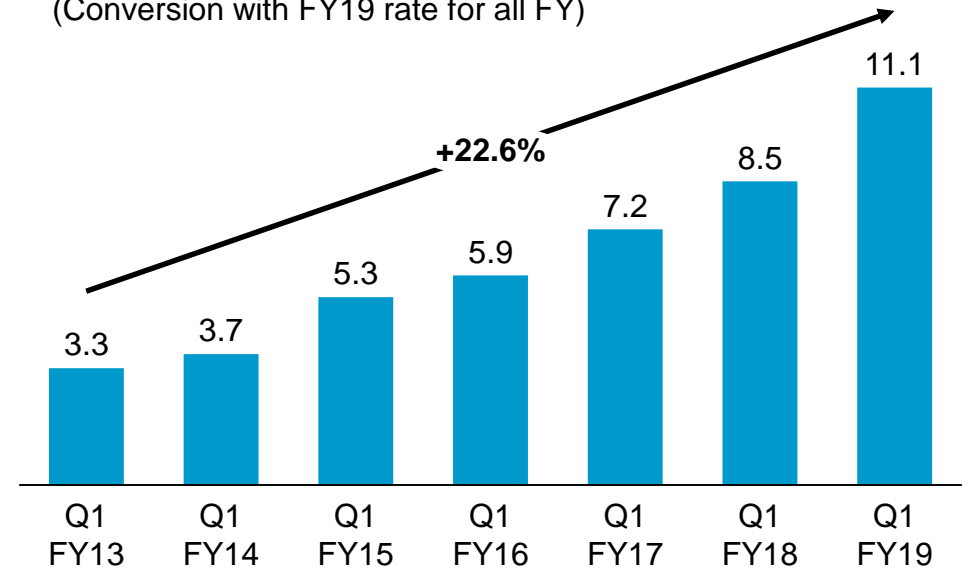
Japan yen basis
(JPY billions, CAGR)

Revenue

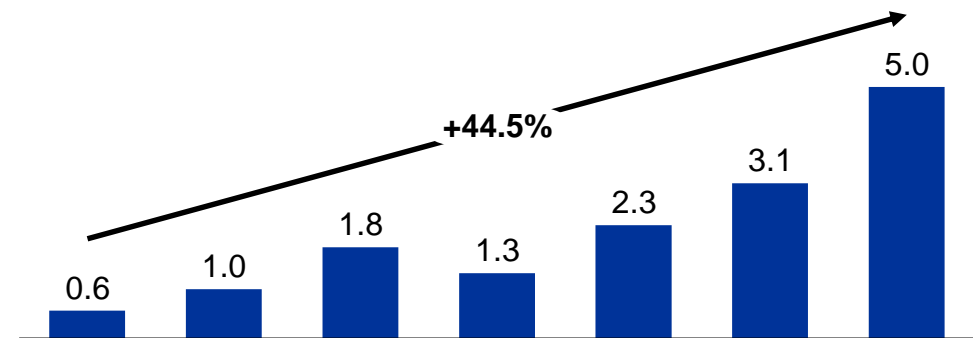
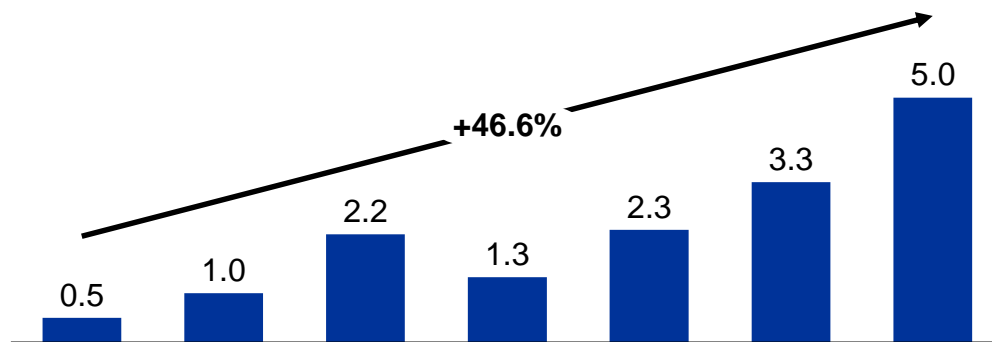


Local currency basis

(Conversion with FY19 rate for all FY)



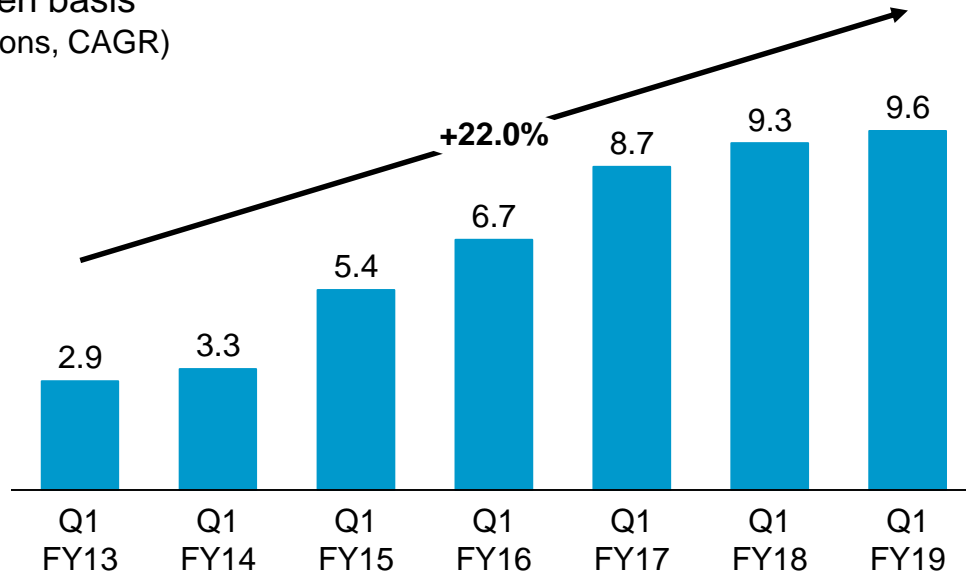
OP
before R&D



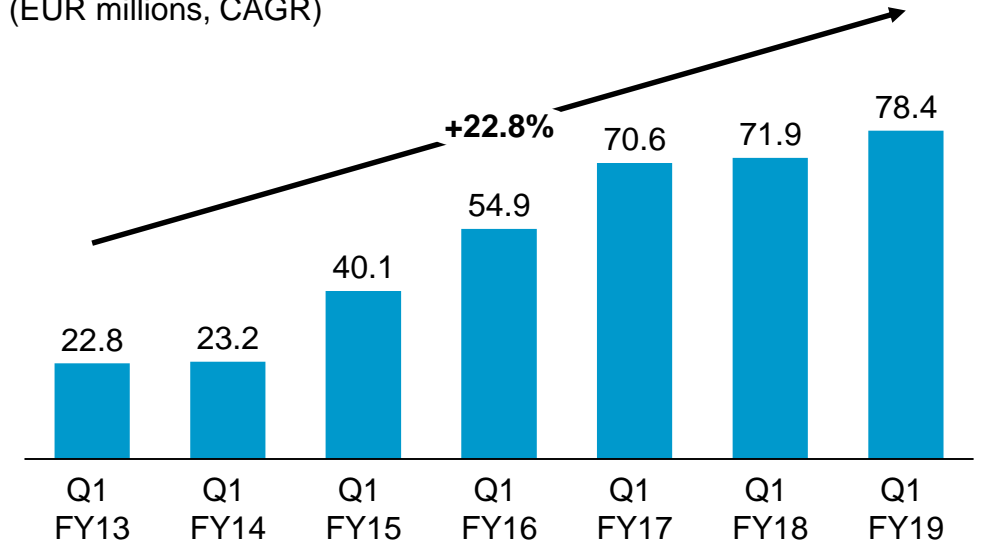
Performance by Business (EMEA)

Japan yen basis
(JPY billions, CAGR)

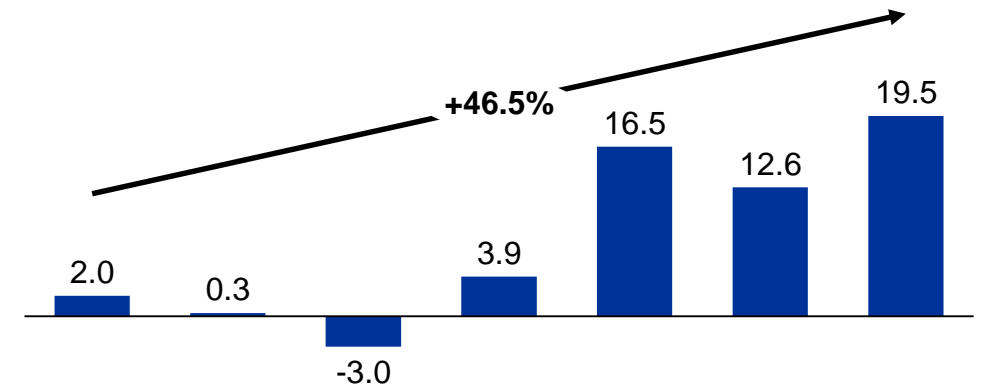
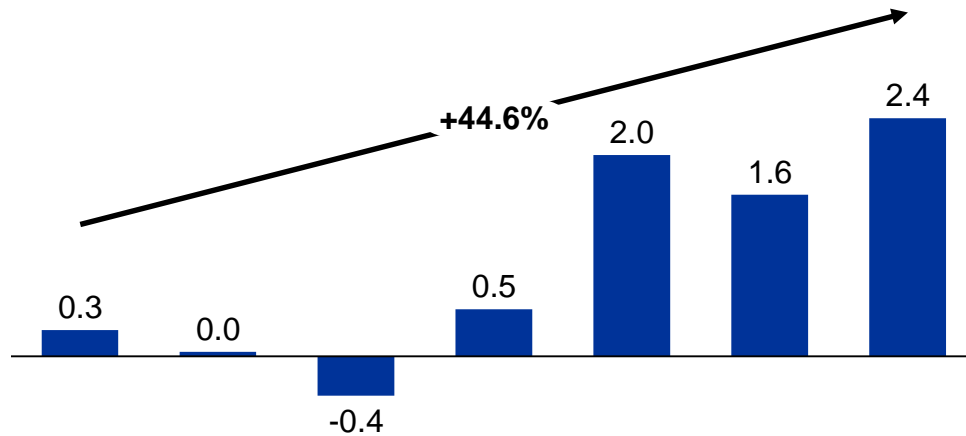
Revenue



EURO basis
(EUR millions, CAGR)



OP
before R&D



FY2019 Forecast Overview (No change from May 9)

As middle year of MTP2020, targeting to raise both revenue growth and operating efficiency

(JPY billions)	FY2018	FY2019	
Core basis	Actual	Forecast	YoY
Revenue	234.0	248.0	6.0%
COGS	-90.8	-95.0	4.7%
Gross profit	143.3	153.0	6.8%
SGA	-71.3	-74.0	3.8%
R&D expenses	-23.8	-28.0	17.9%
Operating profit	48.2	51.0	5.7%
Net profit	36.1	37.7	4.5%
Actual tax ratio	25.2%	26.1%	
ROE	12.5%	12.8%	0.3pt
IFRS			
Operating profit	45.1	34.5	-23.5%
Net profit	31.9	23.2	-27.4%
Actual tax ratio	25.9%	32.4%	
ROE	11.1%	7.9%	-3.2pt
USD	110.82	110.00	+0.7%
EUR	128.38	130.00	-1.2%
CNY	16.52	16.00	+3.3%

+: JPY appreciation, -: JPY depreciation

Revenue

Japan:

To grow with increased revenue from key products (including *Eybelis*, High-dose *Alesion* and *LENTIS Comfort*) covering the negative impact from NHI price cuts

Overseas:

Maximize revenue both in Asia and EMEA

Consolidated total revenue 248 bil JPY (+6.0%)

Core basis

Continuous profit improvement from core business

- **SGA: 74 bil JPY (+3.8%)**

Accelerate cost optimization under new management framework

- **R&D expenses: 28 bil JPY (+17.9%)**

Continue strategic investment to lead growth to 2020 and beyond

Operating profit: 51 bil JPY (+5.7%)

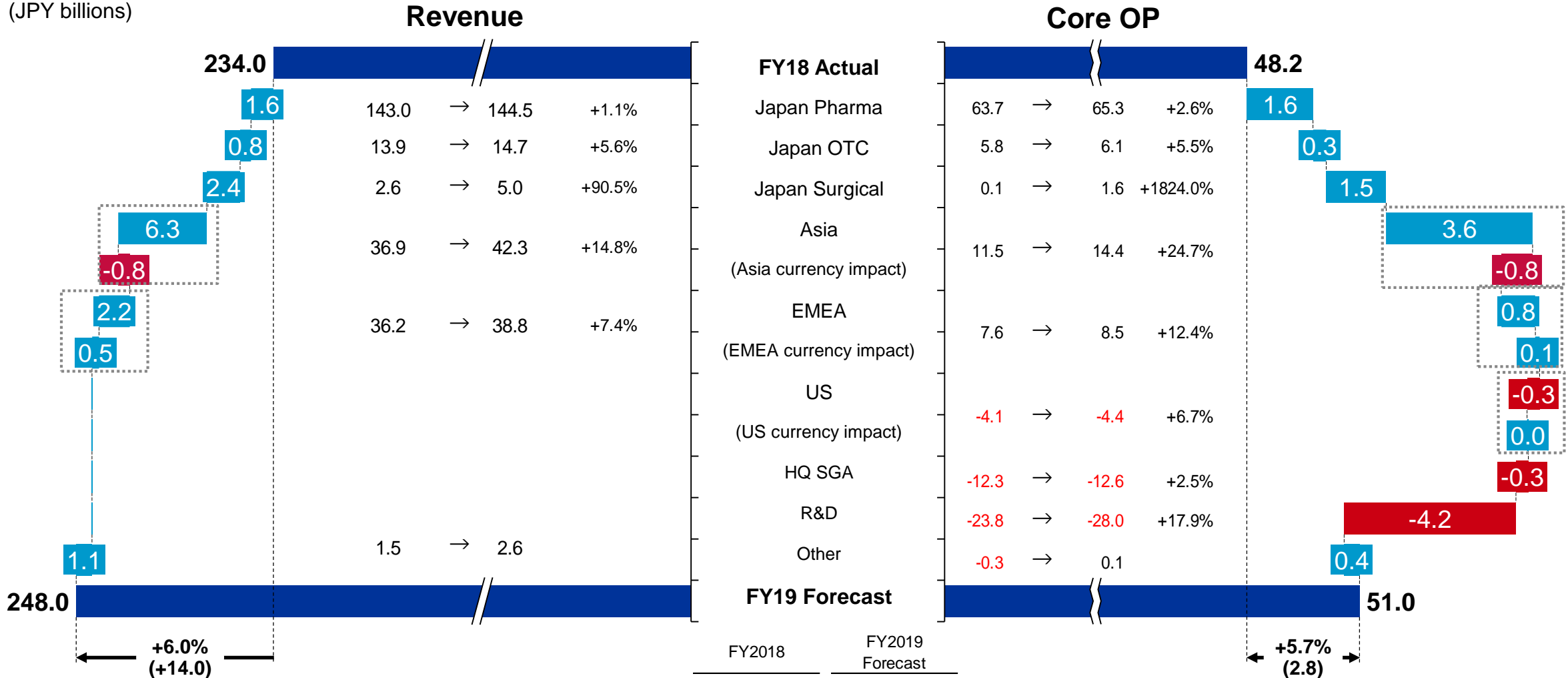
IFRS

Other expenses increase mainly from raised assumptions regarding DE-128 milestone payment probability based on development progress; Operating profit and net profit lower YoY

FY2019 Forecast (No change from May 9)

Growth in Japan and overseas businesses and further optimization of costs in order to realize strategic investment and higher profit

(JPY billions)



	FY2018	FY2019 Forecast
USD	JPY 110.82	JPY 110.00
EUR	JPY 128.38	JPY 130.00
CNY	JPY 16.52	JPY 16.00

FY2019 Dividend Forecast (No change from May 9)

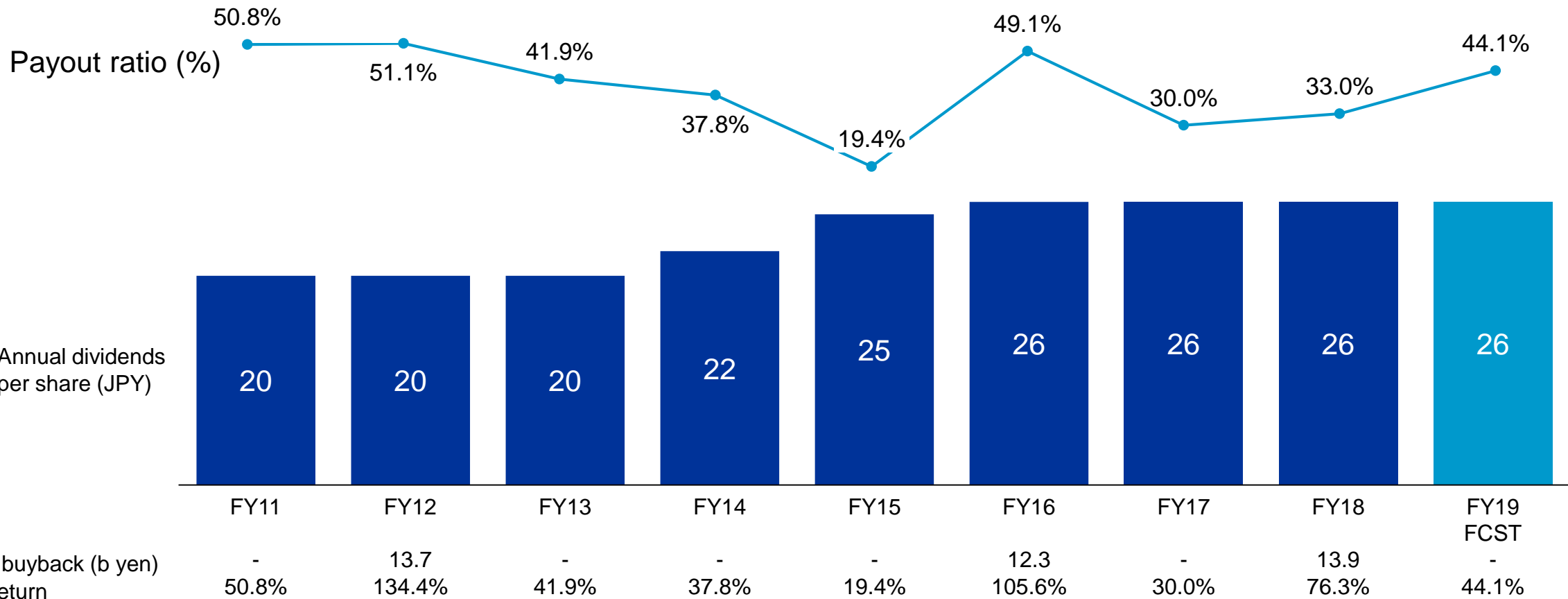
- Annual Dividends

FY2019 forecast: JPY 26 / share

- Stable and sustained return to shareholders

- Mid and Long term strategic investment for growth beyond 2020

→ Implementing shareholder returns policy to achieve the best balance between above two priorities considering dividends and total return



Share buyback (b yen)
Total return

-	13.7	-	-	-	12.3	-	13.9	-
50.8%	134.4%	41.9%	37.8%	19.4%	105.6%	30.0%	76.3%	44.1%

The company implemented a 5-for-1 stock split on April 1, 2015. Accordingly, the calculations of annual dividend per share have been adjusted in all periods for comparison purposes.

J-GAAP standards used until FY13, IFRS applied from FY14.

Total return forecast for FY2019 does NOT include the potential impact from future share buyback

Status of Research & Development

Pipeline / Product Development Status (1)

As of August 1, 2019
Updated information is underlined

	Indication	Region	Status
DE-111 <i>TAPCOM / TAPTIQOM</i> Combination of tafluprost and timolol maleate	Glaucoma / ocular hypertension	China	P3 <i>Plan: 1st half FY2020 P3 completion</i>
DE-117 <i>EYBELIS</i> EP2 receptor agonist	Glaucoma / ocular hypertension	US	P3 <i>Plan: Jan~Jun 2020 P3 completion</i>
		Japan	Launched
		Asia	Filed <i>Plan: 1st half of FY2020 approval</i>
DE-126 FP/EP3 receptors dual agonist	Glaucoma / ocular hypertension	US	P2b
		Japan	
DE-128 <i>PRESERFLO MicroShunt</i>	Glaucoma	US	P2/3 <i>Plan: calendar 2019 PMA rolling submission completion, calendar 2020 launch</i>
		Europe	CE mark received
DE-130A Catioprost latanoprost	Glaucoma / ocular hypertension	Europe	P3 started
		Asia	<i>Plan: calendar 2021 P3 completion</i>

Pipeline / Product Development Status (2)

As of August 1, 2019
Updated information is underlined

	Indication	Region	Status	
DE-109 IVT sirolimus	Uveitis	US	P3 <i>Plan: <u>Approx. FY2022 P3 completion</u></i>	
		Japan	P3	
		Europe	P3	
		Asia	Filed	
DE-122 Anti-endothelin antibody	Wet age-related macular degeneration	US	P2a <i>Plan: <u>2nd half of FY2019 P2a completion</u></i>	
DE-076C Vekacia / Verkazia ciclosporin	Vernal kerato-conjunctivitis	Europe	Launched	
		Asia*	Filed, <i>Plan: <u>Jul~Dec 2019 approval</u></i>	*Product name <i>IKERVIS</i>
		Others	Approved, <i>Plan: <u>calendar 2019 launch</u></i>	
DE-114A epinastine HCl (high dose)	Allergic conjunctivitis	Japan	Filed <i>Plan: <u>by Dec 2019 approval</u></i>	
DE-127 atropine sulfate	Myopia	Japan	<i>Plan: <u>1st half of FY2019 P2/3 start</u></i>	
		Asia	P2 <i>Plan: <u>2nd half of FY2019 P2 completion</u></i>	
MD-16 Intraocular lens	Cataract	Japan	<u>Filed (May 2019)</u> <i>Plan: <u>Jan~Jun 2020 approval</u></i>	

Appendix

Q1 FY2019 Profit and Loss Statement

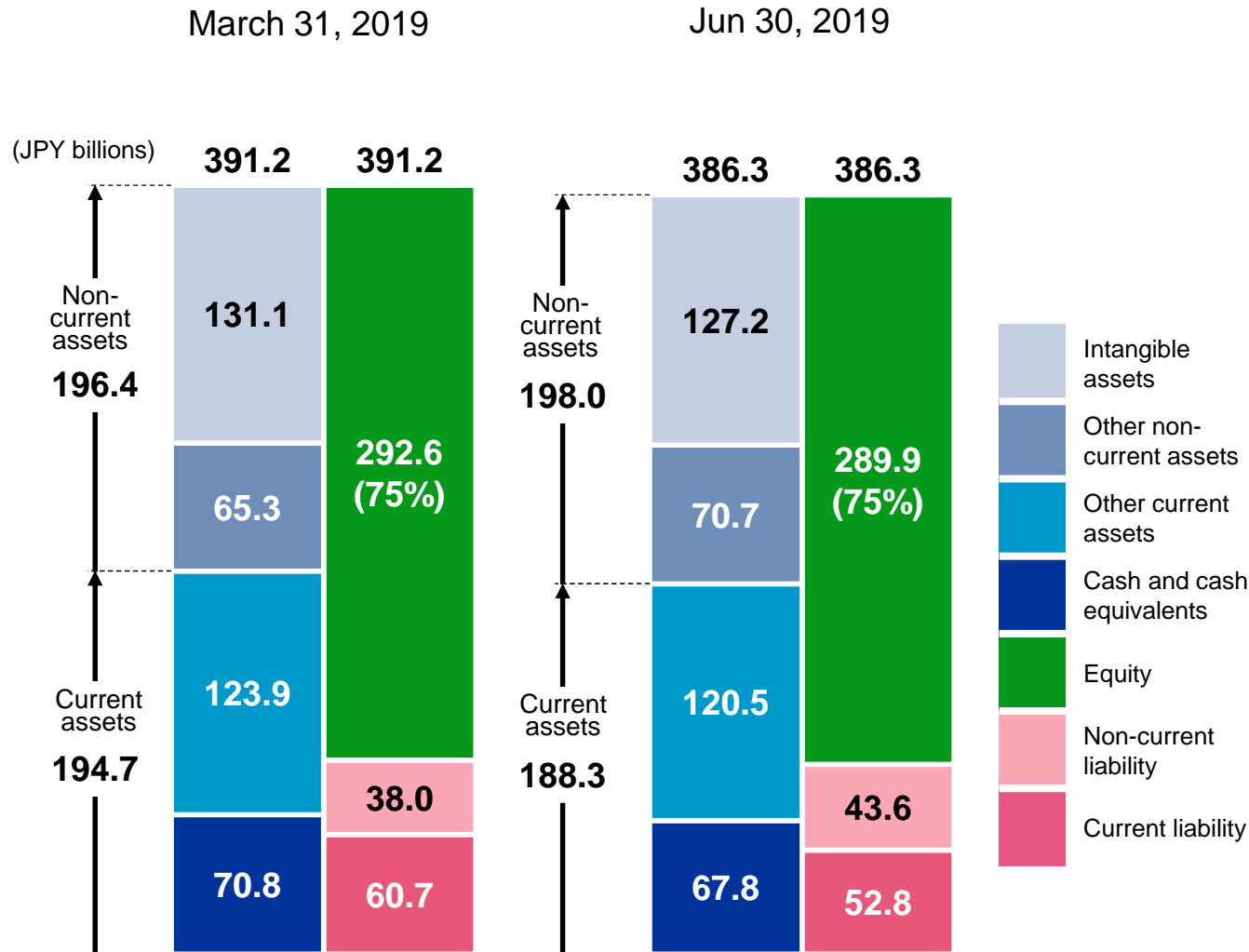
(JPY billions)	Q1 FY18		Q1 FY19		YoY
	Actual	vs Revenue	Actual	vs Revenue	
Revenue	56.5		59.1		4.7%
COGS	-23.0	-40.8%	-24.1	-40.8%	4.8%
Gross margin	33.5	59.2%	35.0	59.2%	4.6%
SGA expenses	-16.2	-28.6%	-16.0	-27.1%	-0.8%
R&D expenses	-5.6	-9.9%	-6.2	-10.4%	9.9%
Core operating profit	11.7	20.7%	12.8	21.6%	9.6%
Amortization on intangible assets associated with products	-1.7	-3.1%	-2.5	-4.2%	42.5%
Other income	0.1	0.2%	0.1	0.2%	-14.9%
Other expenses	-0.0	-0.1%	-1.2	-2.0%	3476.7%
Operating profit (IFRS)	10.0	17.7%	9.2	15.6%	-7.7%
Finance income	0.5	0.9%	0.4	0.7%	-11.7%
Finance expenses	-1.1	-1.9%	-0.7	-1.2%	-35.5%
Profit before tax	9.5	16.7%	9.0	15.2%	-4.8%
Income tax expenses	-2.6	-4.6%	-2.6	-4.4%	0.3%
Actual tax ratio	27.5%		29.0%		1.5pt
Net profit (IFRS)	6.9	12.1%	6.4	10.8%	-6.7%
Core net profit	8.6	15.3%	9.7	16.4%	12.1%

Amortization of intangible asset on *PRESERFLO MicroShunt* started with the soft launch in EU.

Increase from the fair value of contingent payment due to change of timing and probability of such payment on InnFocus acquisition regarding *PRESERFLO MicroShunt* with the development progress and the exclusive U.S. distribution agreement with Glaukos

Tax effect cannot be recognized on the expense from the change in the fair value of contingent payment (described above), income tax expense would not be reduced, resulting in an increase in actual tax ratio

Q1 FY2019 Financial Position



	March 31, 2019	June 30, 2019	Change
Non-current assets	196.4	198.0	1.5
Property, plant and equipment	31.7	39.1	7.4
Intangible assets	131.1	127.2	-3.9
Financial assets	30.0	27.9	-2.2
Other	3.6	3.7	0.1
Current assets	194.7	188.3	-6.4
Inventories	35.2	33.7	-1.5
Trade and other receivables	84.6	82.3	-2.3
Cash and cash equivalents	70.8	67.8	-3.0
Other	4.1	4.4	0.4
Equity	292.6	289.9	-2.7
Non-current liabilities	38.0	43.6	5.7
Financial liabilities	3.6	3.6	-0.0
Long-term liabilities	19.7	20.6	0.9
Deferred tax liabilities	9.4	8.8	-0.6
Other	5.3	10.7	5.4
Current liabilities	60.7	52.8	-7.9
Trade and other liabilities	32.1	27.2	-4.9
Other financial liabilities	12.1	13.9	1.7
Income tax payable	7.2	3.3	-3.9
Other	9.3	8.5	-0.8

Q1 FY2019 Segment Revenue

		Segment Revenue								
		Japan			Overseas			Total		
		Q1 FY2018	Q1 FY2019	YoY	Q1 FY2018	Q1 FY2019	YoY	Q1 FY2018	Q1 FY2019	YoY
(JPY billions)										
Pharmaceuticals		38.0	38.3	0.6%	18.4	20.9	13.2%	56.5	59.1	4.7%
Prescription		33.7	33.6	-0.4%	18.3	20.7	12.8%	52.0	54.2	4.2%
Ophthalmic		33.6	33.5	-0.4%	18.2	20.6	12.9%	51.9	54.1	4.3%
Others		0.1	0.1	6.7%	0.1	0.1	-17.3%	0.2	0.2	-6.6%
OTC		3.5	3.6	5.3%	0.1	0.1	25.5%	3.5	3.7	5.6%
Medical devices		0.6	0.7	14.4%	0.0	0.1	380.1%	0.7	0.8	26.5%
Others		0.2	0.3	31.9%	0.0	0.0	-17.1%	0.3	0.3	26.0%
	Sales ratio	67.4%	64.7%		32.6%	35.3%				

Capital Expenditures / Depreciation & Amortization

(JPY billions)	FY2018		FY2019		
	Q1	Full year	Q1		Full year
	Actual	Actual	Actual	YoY	Forecast
Capital expenditures	1.3	7.2	1.9	44.8%	10.0
Depreciation and amortization*	1.0	4.0	1.1	8.8%	4.8
Amortization on intangible assets associated with products	1.7	7.0	2.5	42.4%	9.9
Intangible assets					
-Merck products	1.5	5.8	1.5	0.0%	5.8
-DE-128**	—	—	0.7	—	2.8
-Ikervis	0.2	0.7	0.2	-4.9%	0.7
Other	0.1	0.5	0.1	41.7%	0.5

*Excludes amortization on intangible assets associated with products and long-term prepaid expenses

**DE-128 (*PRESERFLO MicroShunt*)

Prescription Ophthalmic Market in Japan

JPY billions	Q1 FY2018					Q1 FY2019						
	Santen*		Market		Santen market share*		Santen*		Market		Santen market share*	
	Value	Change (YoY)	Value	Change (YoY)			Value	Change (YoY)	Value	Change (YoY)		
Total	42.9	3.6%	91.7	1.5%	46.8%	No.1	42.5	-0.7%	91.4	-0.3%	46.5%	No.1
Glaucoma	8.9	-3.6%	28.7	-1.9%	30.9%	No.1	8.0	-10.1%	27.6	-4.1%	28.9%	No.1
Retinal disorders	16.8	11.1%	23.9	10.2%	70.4%	No.1	18.0	7.2%	26.0	8.9%	69.3%	No.1
Corneal/dry eye	7.0	-4.3%	11.4	-3.2%	61.7%	No.1	7.0	0.0%	11.5	1.4%	60.9%	No.1
Allergy	5.1	22.9%	10.0	13.1%	50.4%	No.1	4.8	-4.5%	9.1	-9.4%	53.1%	No.1
Anti-infection	1.3	-18.3%	3.4	-7.1%	36.4%	No.1	1.0	-20.2%	3.0	-11.6%	32.8%	No.1

Jul 1, 2018 - Jun 30, 2019

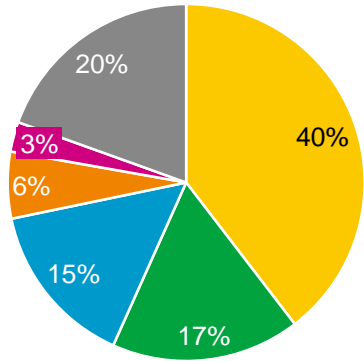
	Santen*		Market		Santen market share*	
	Value	Change (YoY)	Value	Change (YoY)		
Total	172.3	1.7%	364.9	0.1%	47.2%	No.1
Glaucoma	32.2	-9.4%	108.6	-5.0%	29.6%	No.1
Retinal disorders	68.7	9.3%	98.0	9.3%	70.1%	No.1
Corneal/dry eye	28.1	-2.1%	45.8	-1.0%	61.3%	No.1
Allergy	24.4	13.9%	46.3	5.2%	52.8%	No.1
Anti-infection	4.2	-21.0%	12.2	-10.5%	34.2%	No.1

*Including co-promoted product (Anti-VEGF *Eylea*) of Bayer Yakuhin, Ltd. (MAH)

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Revenue by Area Q1 FY2019

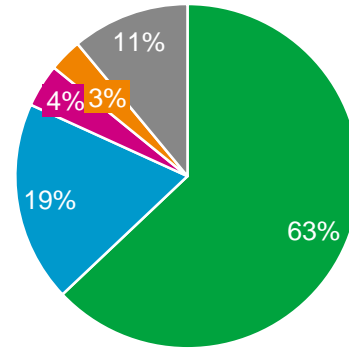
Japan



(Billion JPY)	
Eylea* ¹	15.1
Diquas	3.6
Tapros	2.4
Others	17.1
Total	38.3

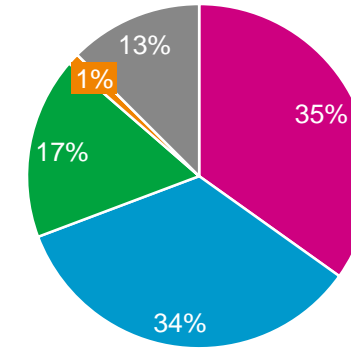
Eylea*: Co-promoted product of Bayer Yakuhin, Ltd. (MAH)

EMEA



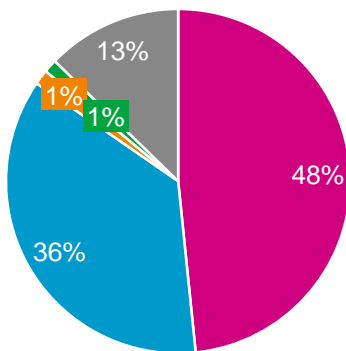
(Billion JPY)	
Cosopt	2.4
Tapros	1.7
Ikervis	0.7
Others	4.7
Total	9.5

Asia



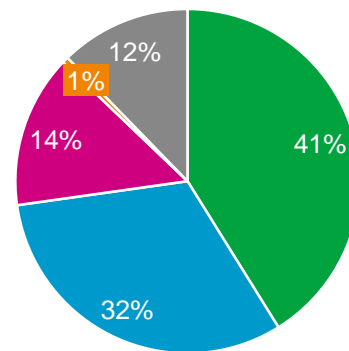
(Billion JPY)	
Cravit	3.4
Hyalein	2.8
Cosopt	1.0
Others	3.9
Total	11.2

China



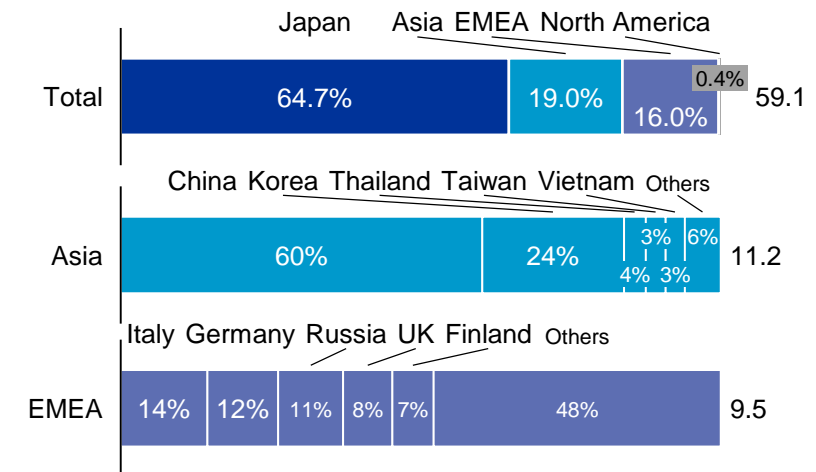
(Billion JPY)	
Cravit	3.0
Hyalein	2.4
Flumetholon	0.4
Others	1.0
Total	6.8

Asia (Ex. China)



(Billion JPY)	
Cosopt	1.0
Diquas	0.8
Tapros	0.5
Others	2.1
Total	4.5

Revenue by business segment (Bil JPY)



■ Intravitreal VEGF inhibitor
 ■ Glaucoma
 ■ Dry eye
 ■ Allergy
 ■ Bacterial conjunctivitis
 ■ Others

Forward-Looking Statements

- Information given in this presentation contains certain forward-looking statements concerning forecasts, projections and plans whose realization is subject to risk and uncertainty from a variety of sources. Actual results may differ significantly from forecasts.
- Business performance and financial condition are subject to the effects of medical regulatory changes made by the governments of Japan and other nations concerning medical insurance, drug pricing and other systems, and to fluctuations in market variables such as interest rates and foreign exchange rates.
- The process of drug research and development from discovery to final approval and sales is long, complex and uncertain. Individual compounds are subject to a multitude of uncertainties, including the termination of clinical development at various stages and the non-approval of products after a regulatory filing has been submitted. Forecasts and projections concerning new products take into account assumptions concerning the development pipelines of other companies and any co-promotion agreements, existing or planned. The success or failure of such agreements could affect business performance and financial condition significantly.
- Business performance and financial conditions could be affected significantly by a substantial drop in sales of a major drug, either currently marketed or expected to be launched, due to termination of sales as a result of factors such as patent expiry and complications, product defects or unforeseen side effects. Santen Pharmaceutical also sells numerous products under sales and/or manufacturing license from other companies. Business performance could be affected significantly by changes in the terms and conditions of agreements and/or the non-renewal of agreements.
- Santen Pharmaceutical is reliant on specific companies for supplies of certain raw materials used in production. Business performance could be affected significantly by the suspension or termination of supplies of such raw materials if such an event were to adversely affect supply capabilities for related final products.

The logo for Santen features a stylized 'S' in a light blue color, followed by the word 'anten' in a dark blue, bold, sans-serif font. The 'S' is composed of two overlapping shapes, one light blue and one dark blue, creating a sense of depth and movement.

Santen

A Clear Vision For Life™