

Investor Meeting on Q3 FY2017 Results



February 6, 2018

SANTEN PHARMACEUTICAL CO., LTD.

Today's Agenda

1. Q3 FY2017 Financial Results

Kazuo Koshiji

Senior Corporate Officer
Chief Financial Officer (CFO)
Head of Finance & Administration Division

2. Status of R&D Q3 FY2017

Naveed Shams, M.D., Ph.D.

Senior Corporate Officer
Chief Scientific Officer (CSO)
Head of Global Research & Development

3. Summary of Q3 FY2017

Akira Kurokawa

President and Chief Executive Officer (CEO)

Q3 FY2017 Financial Results ended December 31, 2017



Kazuo Koshiji

Senior Corporate Officer

Chief Financial Officer (CFO)

Head of Finance & Administration Division

Santen's Values

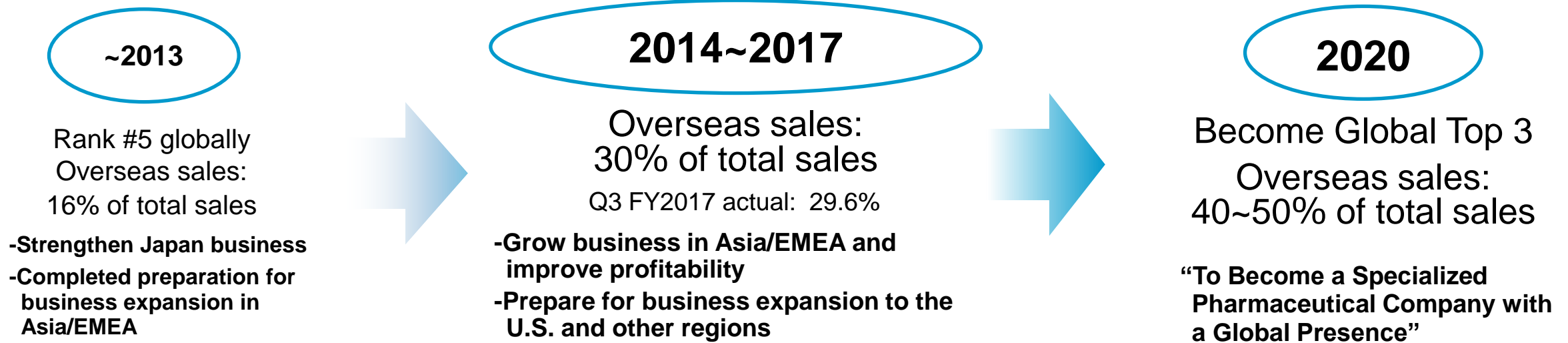
天機に参与する

Tenki ni sanyo suru

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.

Q3 FY2017 Financial Results ended December 31, 2017

To Become a Specialized Pharmaceutical Company with a Global Presence



Current Mid-Term Plan (MTP)

	Plan	Results
Product Development	<ul style="list-style-type: none"> -Transform product development to realize enhanced productivity and achieve sustained growth -Active investment in sustainable growth 	<ul style="list-style-type: none"> -Approval, Launch: <i>Tapcom, Ikervis</i> -Development: filing of DE-109, 117, progress of 122 -Licensing DE-126, Acquisition 128
Business Expansion	<ul style="list-style-type: none"> -Grow business in Asia/EMEA and strengthen market presence by entering into new markets 	<ul style="list-style-type: none"> -Raised new products sales ratio in Japan: from 44% (FY13) to 71% (FY16) -Growth in market share of OTC products in Japan -Strengthened internal sales platform in Asian countries -Grew the number EMEA countries with sales
Organization and Talent	<ul style="list-style-type: none"> -Develop talent and organization to realize sustained growth and strengthen the global management system 	<ul style="list-style-type: none"> -Introduced new HR appraisal system -Held training aimed at nurturing the next generation of employees / managers

Q3 FY2017 Financial Highlights

Revenue and profit both achieve steady growth

- Continued healthy revenue growth in Japan, overseas and across businesses which absorbed higher SG&A and R&D expenses
- Net profit increased substantially, mainly due to the impact from U.S. tax rate reduction

(JPY billions)	FY2016		FY2017			
	prior*	Q3 actual	Q3 actual	YoY	Full year forecast	vs FY forecast
Core basis						
Revenue	150.7	150.7	168.6	11.9%	224.0	75.3%
COGS	-57.6	-57.6	-66.1	14.8%	-86.0	76.9%
Gross margin	93.0	93.0	102.4	10.1%	138.0	74.2%
SGA	-44.0	-44.0	-49.5	12.4%	-69.0	71.7%
R&D expenses	-15.9	-15.9	-17.9	12.3%	-25.0	71.6%
OP	33.1	33.1	35.0	6.0%	44.0	79.6%
Net profit	24.4	24.6	26.2	6.7%	31.2	84.1%
IFRS						
OP	27.5	27.5	30.1	9.5%	37.4	80.4%
Net profit	19.8	17.2	27.3	59.3%	32.0	85.5%
USD	JPY 106.93	JPY 111.75	-4.5%	JPY 110.00	-1.6%	
EUR	JPY 118.36	JPY 128.90	-8.9%	JPY 120.00	-7.4%	
CNY	JPY 16.02	JPY 16.64	-3.9%	JPY 16.50	-0.8%	

+: JPY appreciation, -: JPY depreciation

➤ Revenue: 168.6 bil yen, +11.9% (YoY)

- Japan pharma 104.5 bil yen (+6.2%)
- OTC 11.6 bil yen (+22.5%)
- Asia 22.5 bil yen (+25.9%)
- EMEA 26.6 bil yen (+26.0%)

➤ Operating profit (YoY)

- (Core basis) 35.0 bil yen (+6.0%)
- (IFRS) 30.1 bil yen (+9.5%)

➤ Net profit (YoY)

- (Core basis) 26.2 bil yen (+6.7%)
- (IFRS) 27.3 bil yen (+59.3%)

Notes:

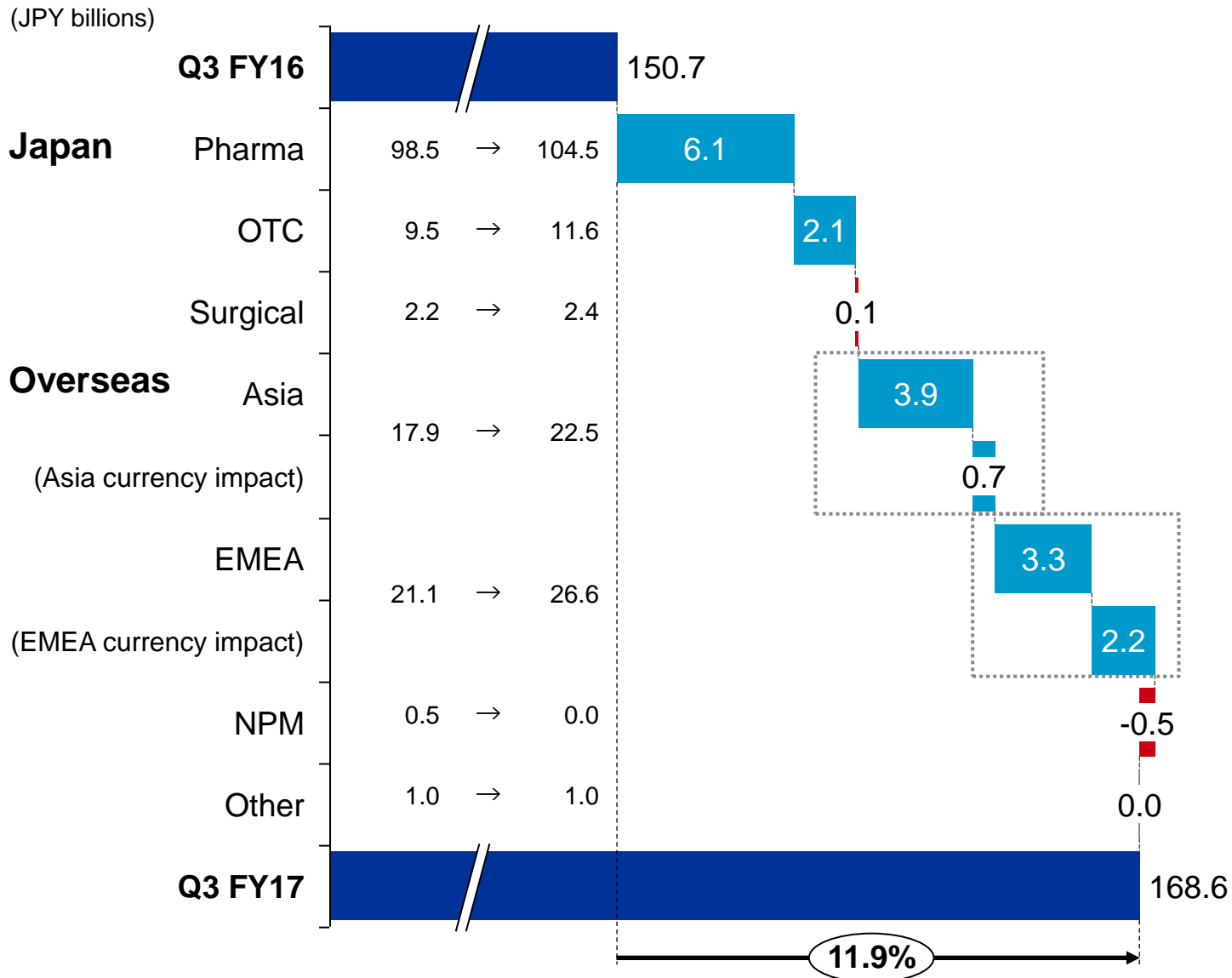
Santen results herein describe Q3 results cumulatively as the 9 month period ended December 31, 2017.

Prior*: Q3 FY16 results announced at Feb 7, 2017.

Q3 FY16 results announced at Feb 6, 2018 are corrected retroactively from prior announced results upon the finalization of the purchase price allocation relating to the acquisition of InnFocus.

Q3 FY2017 Revenue

Japan, Asia and EMEA all contributing to growth



Japan business

Japan pharma	Revenue growth of new products, such as <i>Eylea</i> , <i>Alesion</i> and <i>Diquas</i> , helped boost overall revenue +6.2%
OTC	In addition to continuous growth in inbound sales, good progress in new products and sales promotion for domestic consumers added to +22.5% revenue growth
Surgical	Promoting sales activities cooperating with Japan pharma business

Overseas business

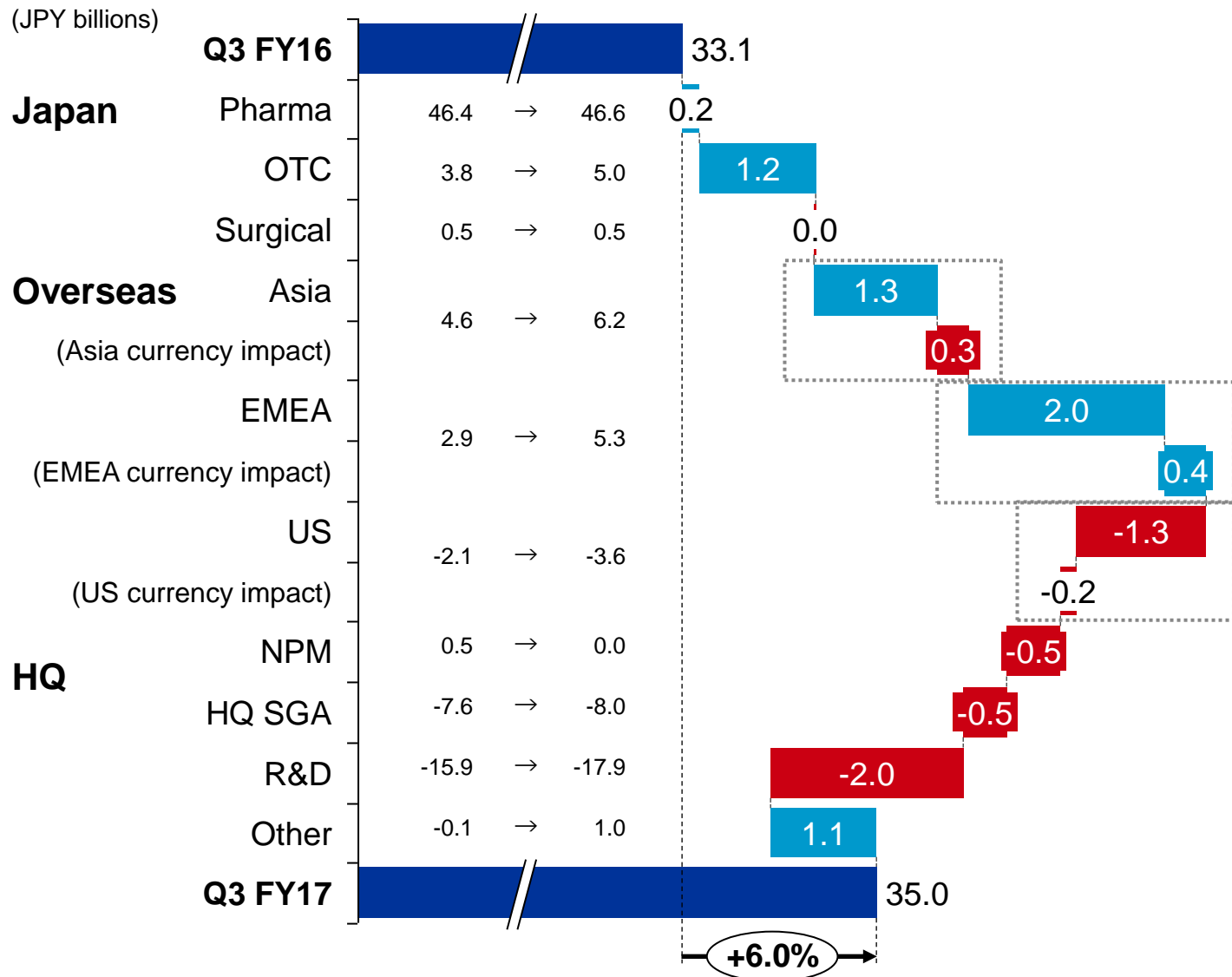
Asia	Overall growth of +25.9% (JPY) due to continuous growth in China, Korea and ASEAN market
EMEA	In addition to the business expansion in Russia, Growth of acquired MSD products and <i>Ikervis</i> helped boost revenue +26.0% (JPY)
NPM	Negligible NPM receipts after the completion of MA transfers from MSD

	Q3 FY16	Q3 FY17
USD	JPY 106.93	JPY 111.75
EUR	JPY 118.36	JPY 128.90
CNY	JPY 16.02	JPY 16.64

Net Profit Margin (NPM): Profit generated from products which Santen acquired from and consigned to Merck until completion marketing right transfers

Q3 FY2017 Core Operating Profit

Overseas operations and OTC business drive high growth



Japan business

Japan pharma	Decline reflects transitory factor that lowered COGS in same period of prior year
OTC	Overall higher with revenue growth

Overseas business

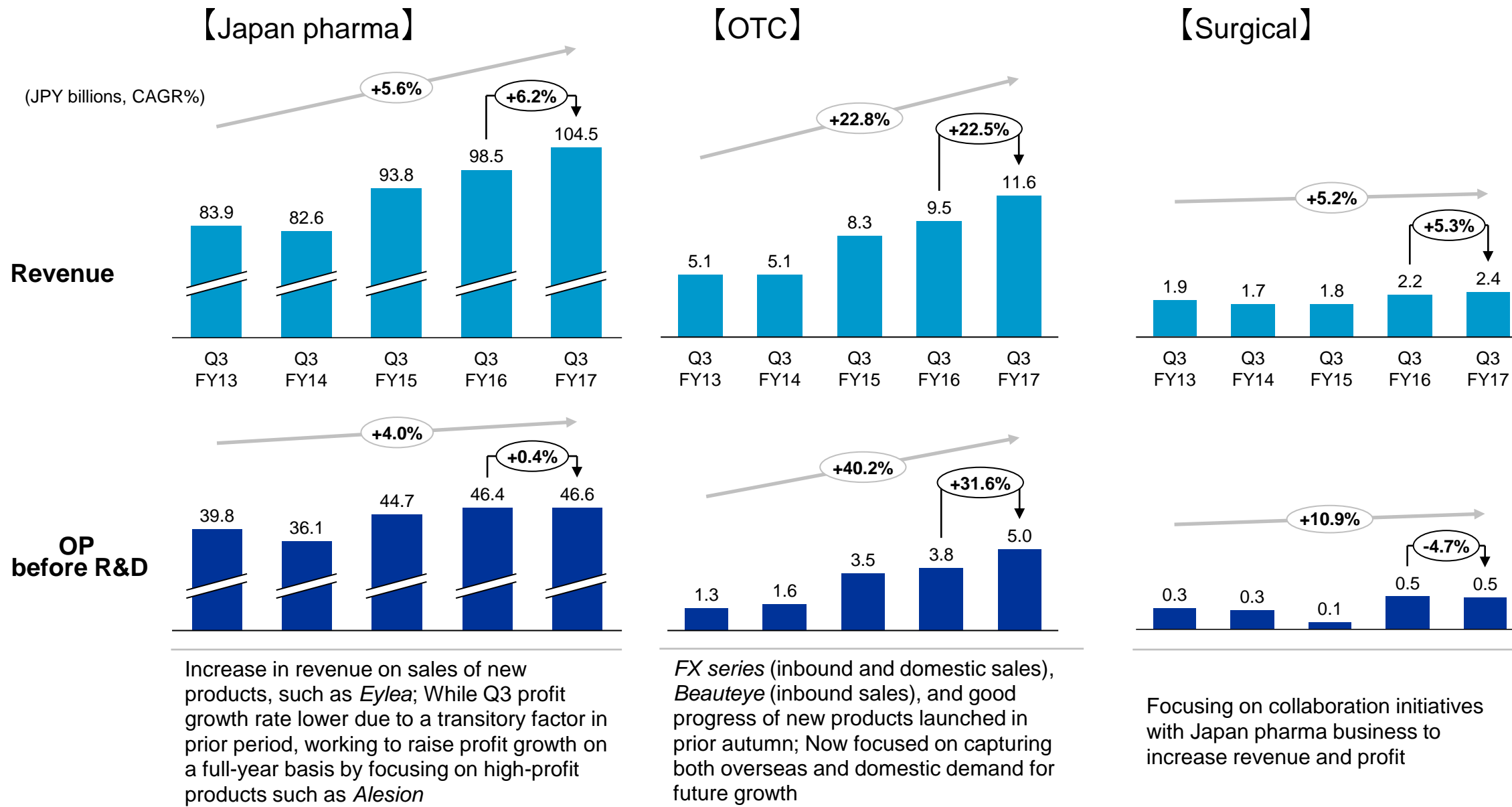
Asia	Higher with revenue growth and expense management
EMEA	
US	Mainly due to higher expenses for market entry preparation which increased to Q3

R&D expenses

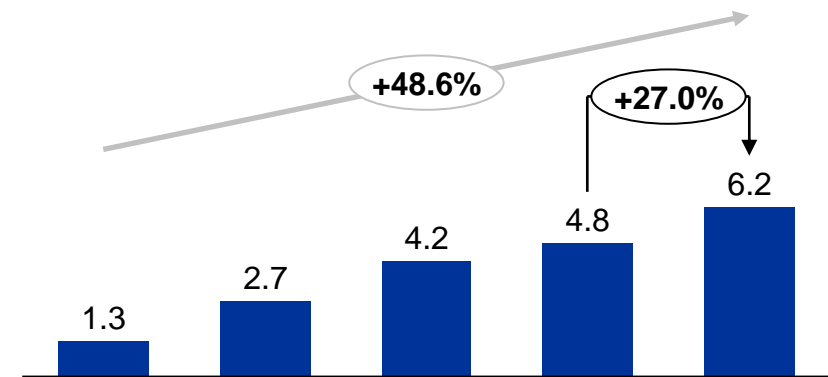
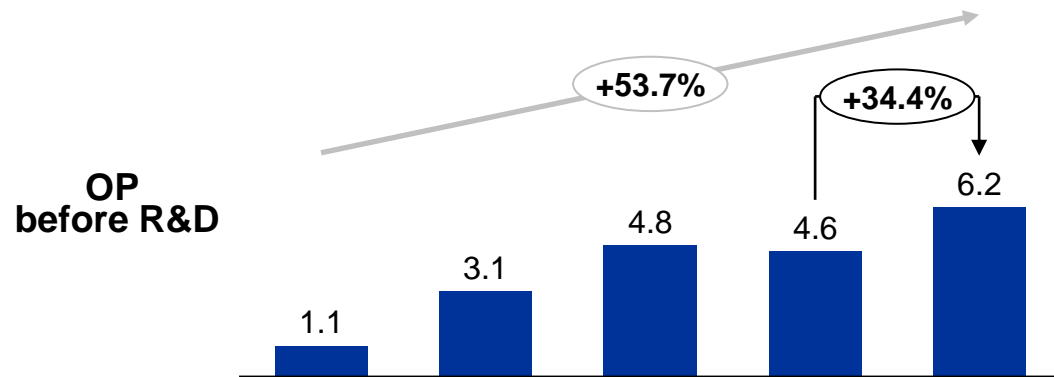
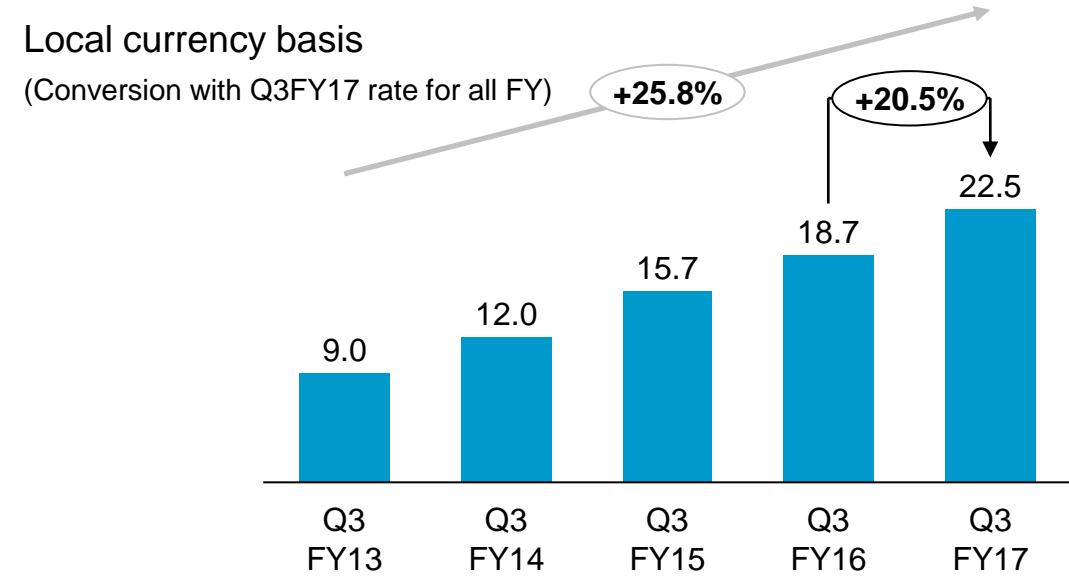
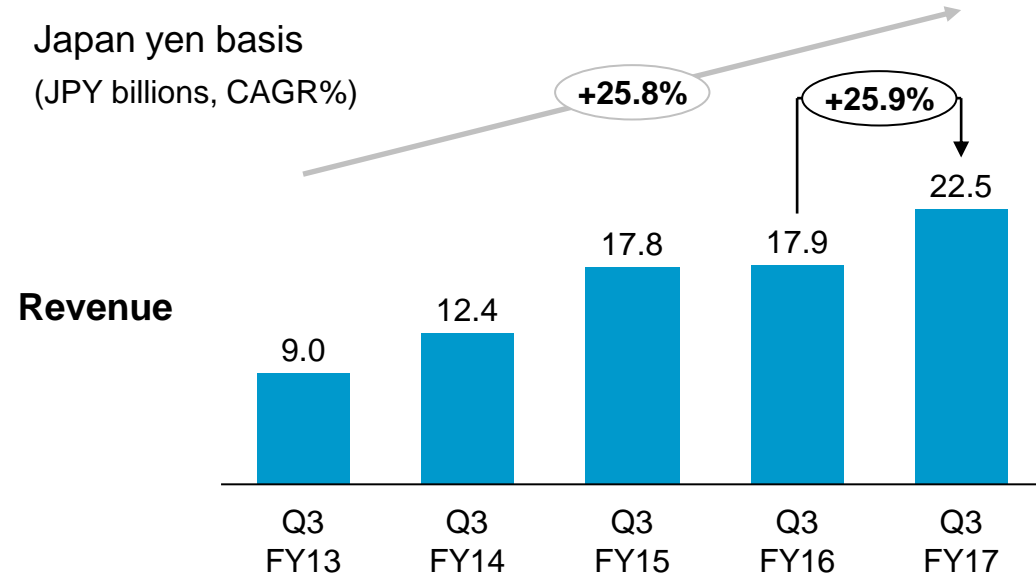
Higher expenses due to pipeline progress (DE-114A, 126, 128)

	Q3 FY16	Q3 FY17
USD	JPY 106.93	JPY 111.75
EUR	JPY 118.36	JPY 128.90
CNY	JPY 16.02	JPY 16.64

Performance by Business (Japan)

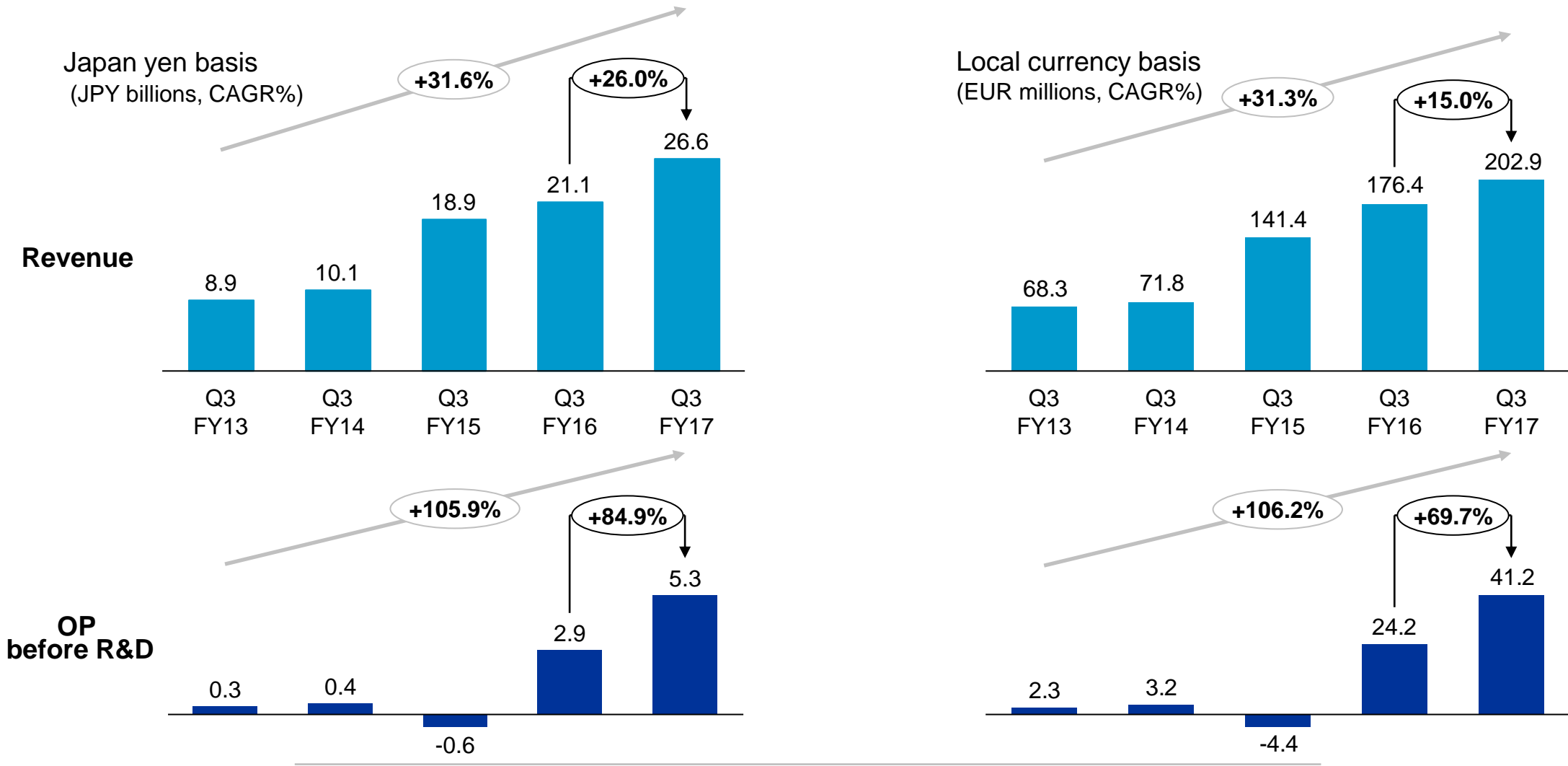


Performance by Business (Asia)



Good market penetration progress of products particularly in China, Korea, Vietnam and other countries; With our strengthening business platform, we are planning continuous growth both in existing and new markets

Performance by Business (EMEA)

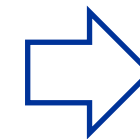


Continuous good market penetration of both Santen and acquired MSD products in the glaucoma area (YoY: *Cosopt* +14.4%, *Tapros*, +14.9%, *Trusopt* +14.8%); *Ikervis* growth YoY: +99.0%; Growing presence in Russia and other emerging markets

FY2017 P&L Forecast

(JPY bil)	FY2016		FY2017		YoY	Original MTP	vs MTP
	Actual	Forecast announced on May10, 2017	Forecast announced on Feb 6, 2018	Change			
Core basis							
Revenue	199.1	218.0	224.0	6.0	12.5%	205.0	9.3%
COGS	-75.0	-81.0	-86.0	-5.0	14.7%		
SGA	-61.7	-68.0	-69.0	-1.0	11.9%		
R&D expenses	-22.8	-25.0	-25.0	-	9.7%		
Operating profit	39.7	44.0	44.0	-	10.9%	51.5	-14.6%
Net profit	29.1	31.2	31.2	-	7.1%	35.0	-10.9%
ROE	11.3%	12.3%	11.8%	-0.5pt	0.5pt	14.0%	-2.2pt
IFRS							
Operating profit	32.5	37.4	37.4	-	15.2%		
Net profit	21.7	26.8	32.0	5.2	47.3%	31.0	3.2%
ROE	8.4%	10.6%	12.1%	1.5pt	3.7pt	13.0%	-0.9pt
USD	JPY 108.64	JPY 110.00	JPY 110.00			JPY 103.00	
EUR	JPY 118.96	JPY 120.00	JPY 120.00			JPY 141.00	
CNY	JPY 16.14	JPY 16.50	JPY 16.50			JPY 16.90	

- ◆ Higher revenue from certain Japan pharma products, OTC business and Asia business compared to the forecast at fiscal year start
- ◆ Decrease of income tax expenses due to US tax rate reduction



FY2017 P&L Forecast revised as shown

FY2017 Dividend Forecast (No change from May 10)

Annual Dividends

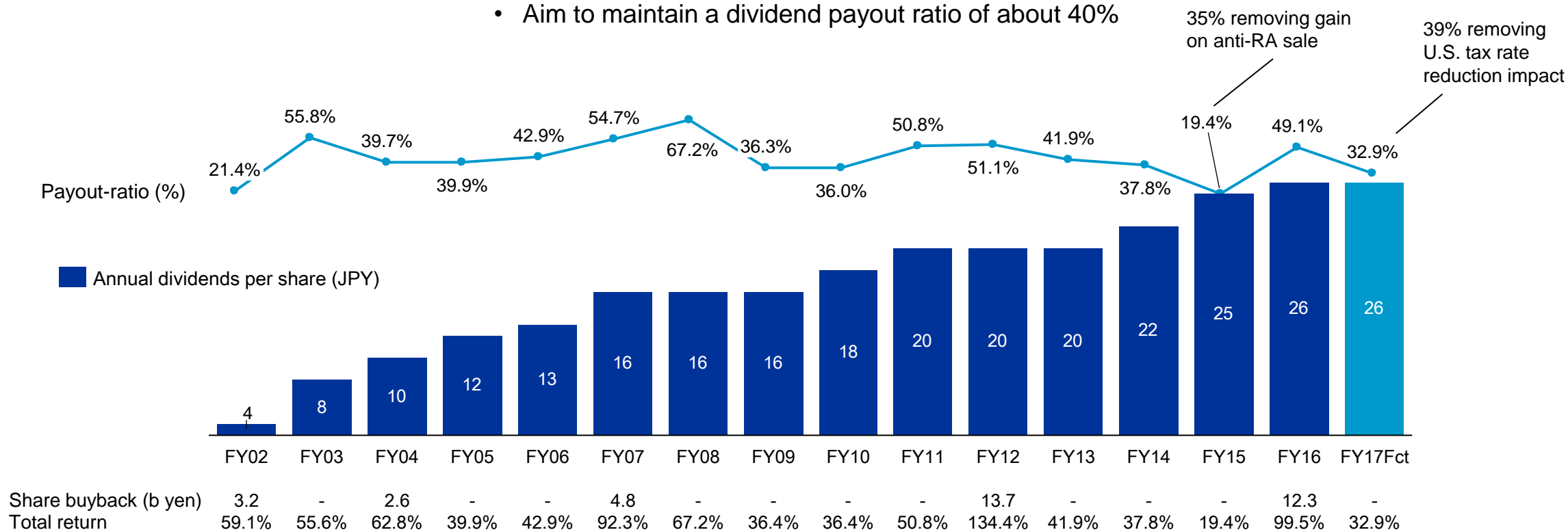
FY2016: JPY 26 / share

FY2017 forecast: JPY 26 / share

(Q2 Sep 30: JPY 13 / share)

Shareholder Return Policy

- Stable and sustained return to shareholders
- Maintain financial position to enable investments in future growth in areas including R&D, Alliances, etc.
- Consider share buybacks in a flexible manner
- Aim to maintain a dividend payout ratio of about 40%



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.

About DE-109 Filing Process

November 28, 2016	<p>“Santen Announces Phase III SAKURA Program Topline Results in Patients with Non-Infectious Uveitis of the Posterior Segment”</p> <p>→ Disclosed plan the New Drug Application (NDA) filing to the FDA based on the totality of the data from the SAKURA Program.</p>
February 28, 2017	Filed to U.S. FDA
April 25, 2017	<p>“Santen Announces U.S. FDA Filing Acceptance of New Drug Application (NDA) for Intravitreal Sirolimus (DE-109) in the Treatment of Non-Infectious Uveitis of the Posterior Segment”</p> <p>→ Disclosed that filing had been accepted and U.S. FDA set an action date of December 24, 2017 to complete the review</p>
<p>(Santen responded to inquiries from U.S. FDA in a timely manner during the period)</p>	
December 21, 2017	<p>“Santen Receives Complete Response Letter from U.S. FDA for Intravitreal Sirolimus (DE-109)”</p> <p>→ Disclosed receipt of CRL which requests additional substantiating evidence to demonstrate efficacy</p>

Status of Research & Development Q3 FY2017



Naveed Shams, M.D., Ph.D.

Senior Corporate Officer

Chief Scientific Officer (CSO)

Head of Global Research & Development

Pipeline / Product Development Status (1)

As of February 6, 2018

	Indication	Region	Status
DE-117 EP2 receptor agonist	Glaucoma / ocular hypertension	US	P2
		Japan	<u>Filed</u> <i>Plan: 2nd half FY2018 approval</i>
		Asia	P3 <i>Plan: 2nd half FY2018 P3 completion</i>
DE-126 FP/EP3 receptors dual agonist	Glaucoma / ocular hypertension	US	P2b
		Japan	<i>Plan: Jan~Jun 2018 P2b completion</i>
DE-128 <i>InnFocus MicroShunt</i>	Glaucoma	US	P2/3 <i>Plan: Calendar 2018~2019 P2/3 completion, Calendar 2020~2021 launch</i>
		Europe	CE mark granted
DE-109 IVT sirolimus	Uveitis	US	<u>Received CRL. Plan: Under consideration</u>
		Japan	P3. <i>Plan: Under consideration</i>
		Europe	P3. <i>Plan: Under consideration</i>
		Asia	Filed
DE-122 Anti-endoglin antibody	Wet age-related macular degeneration	US	P2a* <i>Plan: Jan~Jun 2019 P2a completion</i>

Pipeline / Product Development Status (2)

As of February 6, 2018

	Indication	Region	Status
DE-089 <i>Diquas</i>	Dry eye	China	Approved <i>Plan: FY2018 launch</i>
DE-076B Cyclokat / <i>Ikervis</i> ciclosporin	Severe keratitis in patients with dry eye	Asia	<u>Launched</u>
		US	P2
		Others	Filed
DE-076C Vekacia / <i>Verkazia</i> Ciclosporin	Vernal kerato-conjunctivitis	Europe	Filed (received positive CHMP opinion)
DE-114A epinastine HCl (high dose)	Allergic conjunctivitis	Japan	P3 (<u>pivotal study, CAC, met primary endpoints</u>) <i>Plan: 1st half of FY2018 P3 completion</i>
DE-127 atropine sulfate	Myopia	Asia	<u>P2</u> <i>Plan: 2nd half of FY2019 P2 completion</i>

Summary of Q3 FY17 Announcement



Akira Kurokawa

President and Chief Executive Officer (CEO)

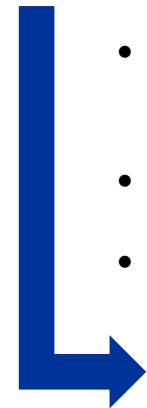
Summary of Q3 FY17 Announcement

Events impacting current and future business environment



- Japan: Changes to the Japan NHI price reform system
- U.S.: Receipt of CRL related to DE-109 from FDA

Leveraging specialized company focus as our strength



- Japan: Continue to grow by raising competitiveness, expanding and creating markets in our specialty area of ophthalmology
- Asia / EMEA: Further strengthen operations, penetrate markets and accelerate profit growth
- U.S.: Focus on glaucoma pipeline as well as take necessary measures for DE-109

Continue working to realize VISION 2020

- Think deeply about true customer needs
- Offer clear advantages to competitors
- Be globally competitive with a global presence

- **#1 share in Japan and Asia**
- **Raise overseas sales ratio**



To the next growth stage

Reference

Q3 FY2017 Profit / Loss

(JPY billions)	Q3 FY16			Q3 FY17		YoY
	prior*	Actual	vs Revenue	Actual	vs Revenue	
Revenue	150.7	150.7		168.6		11.9%
COGS	-57.6	-57.6	-38.3%	-66.1	-39.2%	14.8%
SGA expenses	-44.6	-44.6	-29.6%	-49.5	-29.4%	11.0%
R&D expenses	-15.9	-15.9	-10.6%	-17.9	-10.6%	12.3%
Amortization on intangible assets associated with products	-4.8	-4.8	-3.2%	-5.0	-3.0%	4.9%
Other income	0.3	0.3	0.2%	0.4	0.2%	25.1%
Other expenses	-0.6	-0.6	-0.4%	-0.3	-0.2%	-42.2%
Operating profit (IFRS)	27.5	27.5	18.2%	30.1	17.8%	9.5%
Finance income	0.9	0.9	0.6%	0.8	0.5%	-7.4%
Finance expenses	-1.6	-4.4	-2.9%	-1.4	-0.8%	-69.5%
Profit before tax	26.8	23.9	15.9%	29.5	17.5%	23.5%
Income tax expenses	-7.0	-6.8	-4.5%	-2.2	-1.3%	-67.6%
<i>Actual tax ratio</i>	<i>26.0%</i>	<i>28.2%</i>		<i>7.4%</i>		<i>-20.8pt</i>
Net profit (IFRS)	19.8	17.2	11.4%	27.3	16.2%	59.3%
Core operating profit	33.1	33.1	21.9%	35.0	20.8%	6.0%
Core net profit	24.4	24.6	16.3%	26.2	15.6%	6.7%

Due to a transitory factor in prior period and product mix in Q3 FY17

SGA increases:

- Japan pharma 0.4 bil yen
- Asia 2.3 bil yen, EMEA 1.2 bil yen, US 1.5 bil yen
- HQ 0.4 bil yen

Mainly due to US tax rate reduction

	Q3 FY16	Q3 FY17
USD	JPY 106.93	JPY 111.75
EUR	JPY 118.36	JPY 128.90
CNY	JPY 16.02	JPY 16.64

Notes:

Santen results herein describe Q3 results cumulatively as the 9 month period ended December 31, 2017.

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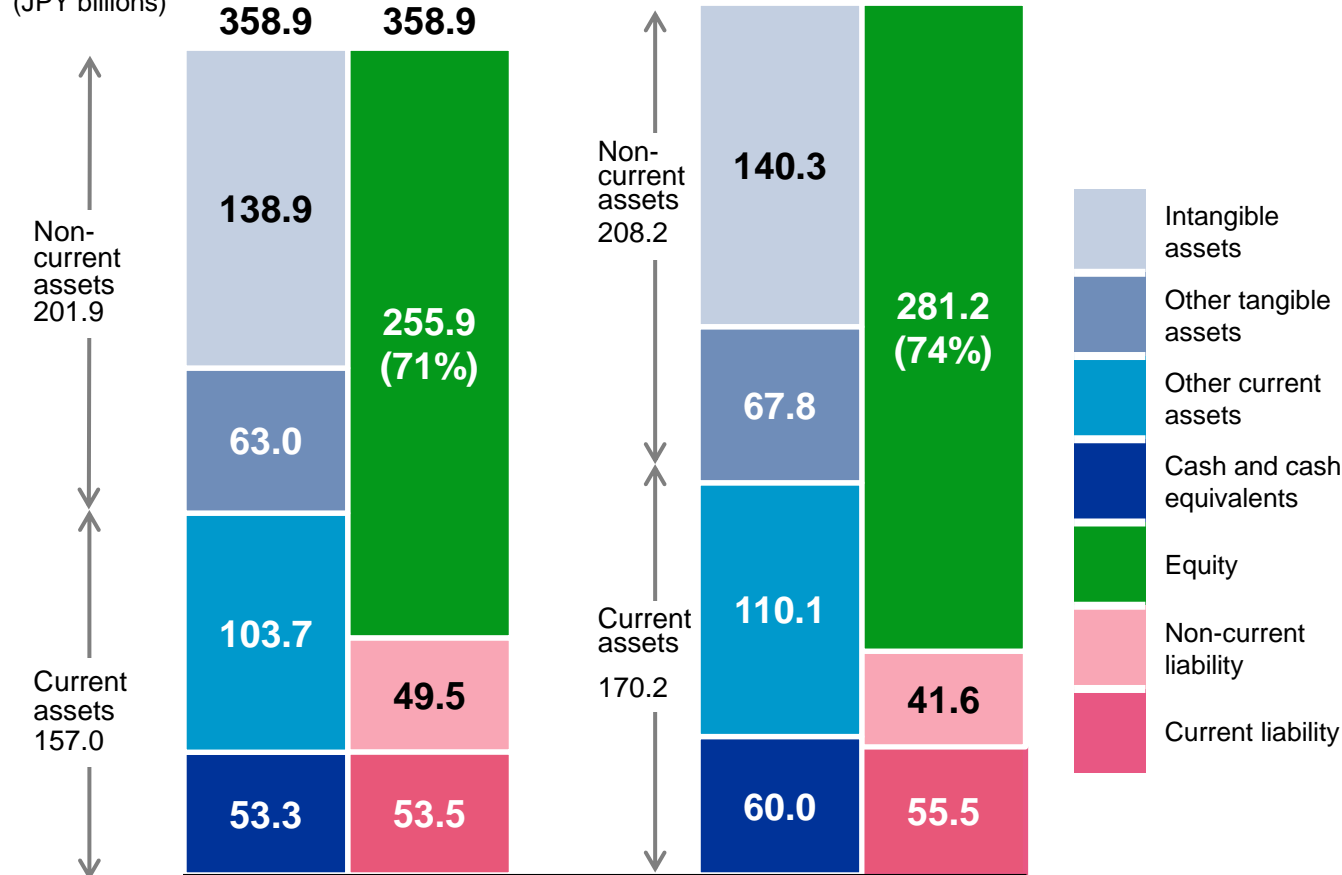
Q3 FY2017 Financial Position

March 31, 2017
(After PPA)

Dec 31, 2017

Increased trade receivables,
cash and cash equivalents
mainly due to sales growth

(JPY billions)



	March 31, 2017			Dec 31, 2017	Change
	Before PPA	After PPA			
Total assets	322.8	358.9	36.1	378.4	19.5
Non-current assets	165.8	201.9	36.1	208.2	6.3
Property, plant and equipment	28.6	28.6	-	29.7	1.1
Intangible assets	102.8	138.9	36.1	140.3	1.4
Financial assets	29.9	29.9	-	33.5	3.6
Other	4.5	4.5	-	4.7	0.2
Current assets	157.0	157.0	-	170.2	13.2
Inventories	28.5	28.5	-	27.5	-1.0
Trade and other receivables	71.0	71.0	-	78.5	7.5
Cash and cash equivalents	53.3	53.3	-	60.0	6.8
Other	4.2	4.2	-	4.2	-0.1
Equity	253.9	255.9	2.0	281.2	25.3
Non-current liabilities	15.5	49.5	34.0	41.6	-7.9
Financial liabilities	7.6	7.6	-	3.5	-4.1
Accrued payable	-	18.7	18.7	19.3	0.6
Deferred tax liabilities	2.6	18.0	15.4	13.6	-4.3
Other	5.3	5.3	-	5.2	-0.1
Current liabilities	53.4	53.5	0.0	55.5	2.1
Trade and other liabilities	23.9	23.9	-	24.7	0.8
Other financial liabilities	17.6	17.6	0.0	16.4	-1.3
Income tax payable	3.3	3.3	-	4.7	1.4
Other	8.6	8.6	-	9.7	1.1

Q3 FY2017 Segment Revenue

Q3 FY17 Segment Revenue						
	Japan		Overseas		Total	
(JPY billions)	Revenue	YoY	Revenue	YoY	Revenue	YoY
Pharmaceuticals	116.4	7.5%	49.8	24.2%	166.1	12.0%
Prescription	104.9	6.2%	49.6	23.9%	154.5	11.3%
Ophthalmic	104.5	6.0%	49.3	26.7%	153.8	11.9%
Others	0.5	76.2%	0.3	-75.0%	0.7	-45.6%
OTC	11.4	20.6%	0.2	127.9%	11.6	21.6%
Others	2.4	11.3%	0.1	-64.9%	2.5	6.4%
Medical devices	1.9	0.8%	0.0	30.7%	1.9	1.1%
Others	0.5	75.3%	0.0	-78.4%	0.6	29.6%
Total	118.8	7.5%	49.8	23.8%	168.6	11.9%
Sales ratio	70.4%		29.6%			

Capital Expenditures / Depreciation & Amortization

(JPY billions)	FY2016		FY2017		
	Q3	Full year	Q3		Full year
	Actual	Actual	Actual	YoY	Forecast
Capital expenditures	4.1	5.2	4.5	9.0%	7.7
Depreciation and amortization*	2.6	3.5	3.1	21.2%	3.8
Amortization on intangible assets associated with products	4.8	6.4	5.0	4.9%	6.6
Intangible assets -Merck products	4.0	5.4	4.1	4.1%	5.6
Intangible assets -Ikervis	0.5	0.7	0.5	8.9%	0.7

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

Prescription Ophthalmic Market in Japan

JPY billions	Q3FY16						Q3FY17					
	Santen*		Market		Santen market share*		Santen*		Market		Santen market share*	
	Value	Change (YoY)	Value	Change (YoY)			Value	Change (YoY)	Value	Change (YoY)		
Total	116.0	2.8%	254.7	-0.9%	45.5%	No.1	123.4	6.4%	268.1	5.3%	46.0%	No.1
Glaucoma	28.2	0.2%	87.3	1.4%	32.3%	No.1	27.8	-1.4%	88.7	1.6%	31.4%	No.1
Anti-VEGF	40.2	11.6%	55.8	-1.0%	72.2%	No.1	46.3	15.1%	64.8	16.2%	71.5%	No.1
Corneal/dry eye	21.7	-3.2%	34.6	-1.9%	62.7%	No.1	22.3	2.8%	35.9	3.6%	62.3%	No.1
Allergy	9.0	28.9%	20.8	8.5%	43.4%	No.1	10.5	15.8%	22.1	6.3%	47.3%	No.1
Anti-infection	5.1	-21.6%	11.4	-11.4%	44.5%	No.1	4.4	-12.5%	11.0	-4.0%	40.5%	No.1

Jan 1, 2017 - Dec 31, 2017

	Santen*		Market		Santen market share*	
	Value	Change (YoY)	Value	Change (YoY)		
Total	164.7	5.6%	358.9	3.9%	45.9%	No.1
Glaucoma	36.4	-1.1%	115.8	1.7%	31.4%	No.1
Anti-VEGF	60.0	12.9%	83.5	12.9%	71.9%	No.1
Corneal/dry eye	29.1	1.7%	46.7	2.3%	62.3%	No.1
Allergy	17.6	17.5%	39.0	4.4%	45.1%	No.1
Anti-infection	5.8	-14.6%	14.1	-5.6%	41.0%	No.1

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

Source: Copyright © 2018 IQVIA. IMS-JPM 2016-17; Santen analysis based on IMS data. Reproduction prohibited without permission.

DE-117:

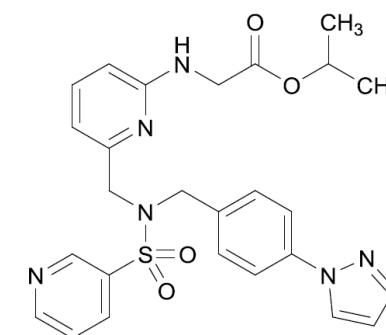
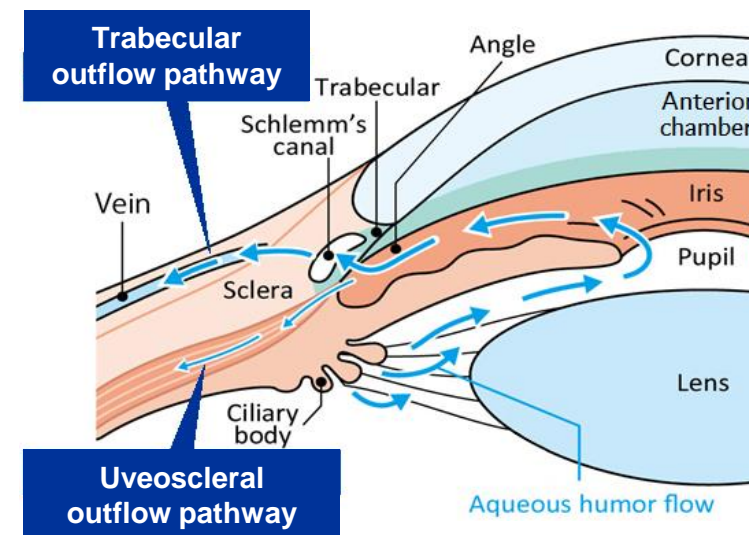
Filed for Manufacturing and Marketing Approval in Japan, November 2017

- ✓ **New mechanism of action, EP2 receptor agonist**
 - Different target receptor from existing prostaglandin analogues
 - Increasing aqueous humor outflow through both pathways

✓ **Met each objective in three P3 studies**

AYAME	Demonstrated non-inferiority to latanoprost
RENGE	Demonstrated safety and effectiveness over six months Side effects of eyelash changes, pigmentation of eyelid and deepening of upper-eyelid sulcus (common with existing prostaglandin analogues) were not observed
FUJI	Demonstrated significant lowering of intraocular pressure in non-/low-responders to existing prostaglandin analogue (FP receptor agonist) after switching to DE-117

- ✓ **Further analysis of the data to be presented at ARVO 2018 to be held at the end of April**



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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 'Santen' in a bold, dark blue sans-serif font. The 'S' is partially overlapping the first letter of 'Santen'.

A Clear Vision For Life