

An interview with President and COO, Akira Kurokawa on Santen's new medium-term management plan

“We aim to achieve growth by successful launch of new products by focusing resources on those regions where we can make the most of our strengths.”

Akira Kurokawa President and COO



Q.1

What are the sales and profit targets in the new plan?

For the final year of the new plan, fiscal 2010, we have set minimum performance targets of ¥115 billion in net sales, operating income of ¥32 billion, net income of ¥22 billion and ROE of 13%. Compared to our results in fiscal 2005, these targets equate to prospective CAGRs of over 3% for net sales and 8% for operating income.

There are three factors that we see contributing to the higher growth rate for operating income relative to net sales. First, during the plan period, we expect to launch products that we have developed in-house for glaucoma, for corneal disorders, and in intraocular lenses. Second, our strategy is to generate growth increasingly from high-value-added products for which there is substantial untapped market demand. Third, we expect to generate ongoing cost savings from the continuing rationalization of our production lines. I believe that these various initiatives will more than absorb higher spending on R&D and promotion. I feel confident that we can hit the targets we have set.

Q.2

How do you aim to develop Santen's prescription pharmaceuticals operations in Japan, and what are the major business objectives?

We forecast a CAGR of approximately 2% for the Japanese prescription ophthalmics market in the period from 2006 through 2010. How we expand sales and raise profitability in this market will be a major determinant of Santen's overall financial performance during the next five years.

We have already established a strong promotional base in Japan in the specialized areas of ophthalmic medicine and rheumatology. Our basic strategy in these fields—in both of which I believe we can maximize our strengths—is to launch new products while at the same time working to expand sales of the existing product portfolio.

Turning first to the glaucoma market, we expect this market to achieve a CAGR in volume terms of 5% over the next five years. In the plan period we expect to launch DE-085, a prostaglandin treatment for glaucoma that we developed in-house. Our objective is to effectively market this drug so that we can derive

the maximum market value as quickly as possible. Using our overwhelming sales presence in this market—one of our greatest strengths—we plan to quickly raise awareness for the new drug and thus maximize prescription numbers.

Next, in the market for corneal conditions, a volume CAGR of approximately 8% is forecast. This reflects a number of factors driving growth in the dry eye market, such as increasing numbers of people wearing contact lenses or using personal computers or other equipment with display monitors for long periods, plus the ongoing aging of the population. In this segment, one goal is to expand sales of our existing product *Hyalein*. We also expect to launch DE-089 as a new treatment for corneal disorders in the latter half of the plan period. Once we have both drugs on the market, this will improve our ability to offer medical professionals a wide range of treatment options for varying medical conditions within this segment. We also plan to conduct campaigns to boost awareness of dry eye among patients. Through an effective combination of these approaches, we intend to realize increased sales and profits from this segment.

We expect the needs of medical professionals to become more diverse. We also anticipate fiercer competition due to the entry of rival companies. In such a competitive business environment, it is critical that we continue to raise the quality of our promotional activities so we can ensure a successful launch for all new products. To this end, we are increasing the number of specialist medical representatives in both ophthalmology and rheumatology as well as further enhancing training programs focused on scientific knowledge and professional skills in both fields.

Q.3

What is Santen's business development strategy in overseas markets?

In the five years to 2010, our overseas business strategy is, first, to concentrate on priority regions. We are tailoring the development of each of these regions to their specific characteristics.

In terms of actual regions, we plan to focus most of our development efforts on countries where growth is expected, where we have already built up a certain commercial presence and where we can make the most of our strengths. These regions are Northern Europe, Eastern Europe, Russia, Germany and China.

In Northern Europe, Eastern Europe and Russia, we are using in-licensing of local European products to supplement the sales of our existing lineup so that we can boost our overall market presence. Over the next five years, we aim to increase sales within this region to ¥9.0 billion, which is equivalent to a CAGR of approximately 8%. In particular, we plan to enhance our position within the growing Russian market for prescription ophthalmics through the launch of our anti-infective *Ofthaquix*. This will add to the growth that we have achieved with our existing lineup of cataract treatments. In Northern Europe, Eastern Europe and Germany, we will boost promotional efforts to increase sales, particularly in the two key therapeutic segments of glaucoma and corneal disorders.

In China, we aim to achieve sales of ¥4.5 billion within five years, which is equivalent to a CAGR of about 25%. We have been targeting the huge potential of the Chinese market for many years now. We began exporting to China in 1988, and today we are the market leader in our target segments. We are also taking the steps necessary to build a robust base of in-house operations within the country. In 2005, we

established a local subsidiary Santen Pharmaceutical (China) Co., Ltd., to conduct manufacturing and direct sales and marketing in China. Using this new base, we have adopted sales and marketing techniques based on academic studies and other medical information. Our promotional goals are to make our main-stay products *Cravit* and *Hyalein* first-choice prescription drugs within the Chinese market.

In the United States, while continuing to develop the business by promoting our existing product lineup through the sales partnership with Johnson & Johnson Vision Care, Inc., we are also focusing on further development of our in-house capabilities for both clinical development and business development.

Q.4

What is Santen's strategy in HR and organizational management?

Whether you are trying to create and manufacture a product or whether you are trying to achieve your plan targets, my personal belief is that people and organization are vital.

It is important to tap the potential of employees and develop their abilities in order to create a strong organization. We value an open and fair atmosphere in which employees can work proactively.

We are strengthening development of Santen's human resources in Japan. This is critical if we are to stake claim to an even higher position in our home market, particularly with overseas firms providing much stiffer competition these days. I believe that we also have to put a lot of effort into overall HR development so that we can forge the internal talent pool needed to realize Santen's transformation into a global company.

In terms of upgrading our organizational management, we are focusing on three areas: R&D, production and strategic marketing.

Within R&D, we are developing integrated clinical development functions across Japan, Europe, the U.S. and Asia with the aim of sharing data between regions and making our clinical development more efficient. Our goal is to upgrade our R&D capabilities so that we have a high-quality, high-speed global clinical development capacity. We are also working to integrate regulatory functions within global drug development.

We are seeking to integrate capabilities worldwide on the production side, too. We plan to optimize production across our three regional manufacturing bases in Japan, Finland and China.

Finally, in strategic marketing, our goal is to establish a global marketing function to ensure our product development efforts support our commercialization goals and prepare for the launch of the global strategic products currently in development.

Through these strategic initiatives we aim to create a stronger and more talented organization. Besides helping us to achieve the medium-term plan objectives, these moves will also help us to further improve our corporate value.