

Investor Meeting on FY2016 Results and FY2017 Forecasts



Akira Kurokawa

President & CEO

May 11, 2017

SANTEN PHARMACEUTICAL CO., LTD.

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.

To Become a Specialized Pharmaceutical Company with a Global Presence

~2013

Rank #5 globally
Overseas sales:
16% of total sales

- Strengthen Japan business
- Completed preparation for business expansion in Asia/EMEA

2014~2017

Overseas sales:
30% of total sales

- Grow business in Asia/EMEA and improve profitability
- Prepare for business expansion to the U.S. and other regions

2020

Become Global Top 3
Overseas sales:
40~50% of total sales

“To Become a Specialized Pharmaceutical Company with a Global Presence”

Current Mid-Term Plan (MTP)

Plan

Results

Product Development

- Transform product development to realize enhanced productivity and achieve sustained growth
- Active investment in sustainable growth

- Approval, Launch: *Tapcom, Ikervis*
- Development: progress of DE-109, 117, 122
- Licensing, Acquisition: DE-126, 128

Business Expansion

- Grow business in Asia/EMEA and strengthen market presence by entering into new markets

- 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 sales countries

Organization and Talent

- Develop talent and organization to realize sustained growth and strengthen the global management system

- Introduced new HR appraisal system
- Held training aimed at nurturing the next generation of employees / managers

FY2016 Financial Results ended March 31, 2017

FY2016 Financial Highlights

Core basis

Revenue: 199.1 bil yen, up 1.9%, overcoming the impacts of yen appreciation impact and anti-rheumatoid business transfer; consecutive revenue growth in each year since 2009

Gross profit: Good progress in the year, ahead of forecasts and prior year

Operating profit: Solid progress against forecasts in first three quarters with the following items causing lower OP compared to prior year:

- Higher spending on SG&A in strengthening of business
- Progress of pipeline increased R&D expenses

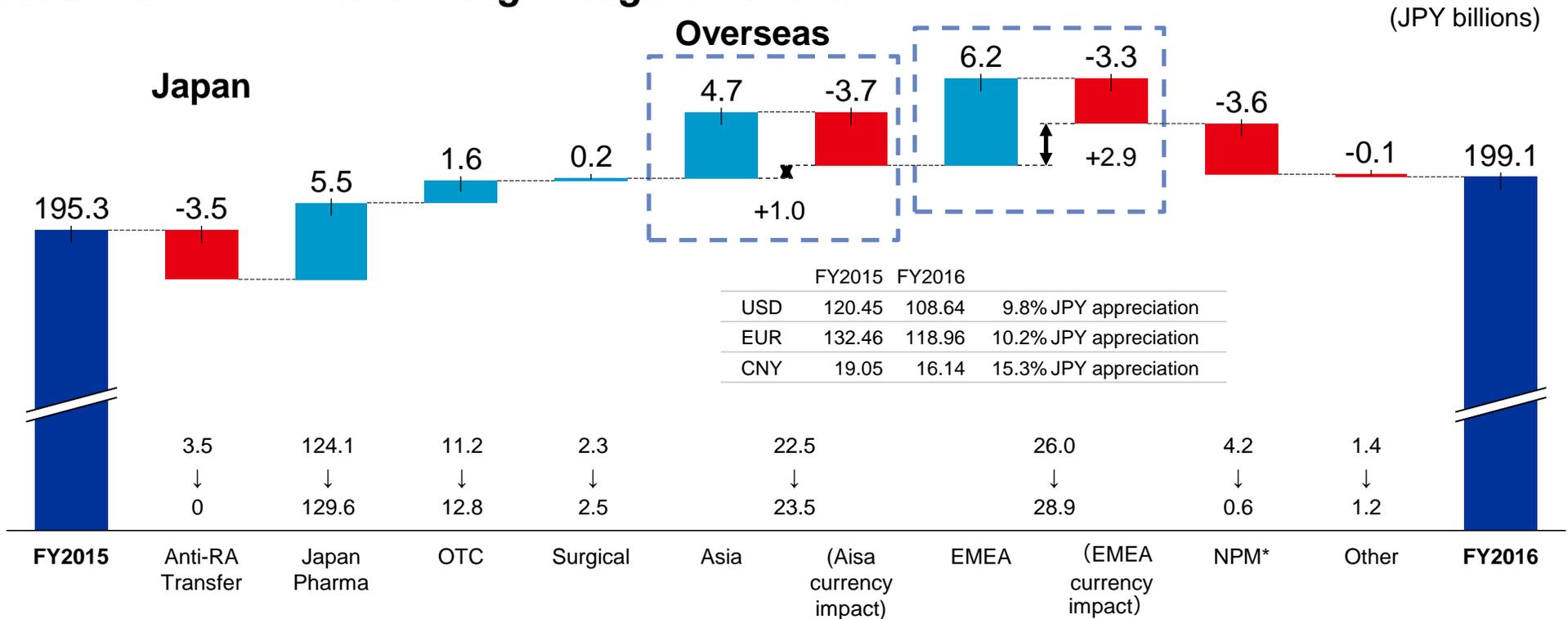
IFRS

IFRS results include the FY2015 gain on transfer of anti-RA business (45 bil yen), resulting in significantly lower OP and net profit in FY2016

(JPY billions)	FY2015		FY2016		
	Full Year Actual	Full Year Actual	YoY	Previous FCST	vs FCST
Core basis					
Revenue	195.3	199.1	1.9%	200.0	99.5%
COGS	-72.8	-75.0	2.9%	-76.5	98.0%
Gross margin	122.5	124.1	1.4%	123.5	100.5%
SGA	-59.4	-61.7	3.8%	-59.0	104.5%
R&D expense	-20.0	-22.8	13.9%	-20.4	111.7%
OP	43.1	39.7	-7.8%	44.1	90.0%
Net profit	29.2	28.7	-1.6%	30.2	95.0%
ROE	12.4%	11.2%	-1.2pt	9.5%	
IFRS					
OP	80.2	32.5	-59.5%	36.3	89.5%
Net profit	53.4	23.1	-56.8%	25.3	91.2%
ROE	22.6%	9.0%	-13.6pt	11.4%	
	USD	120.45	108.64	9.8%	JPY appreciation
	EUR	132.46	118.96	10.2%	JPY appreciation
	CNY	19.05	16.14	15.3%	JPY appreciation

FY2016 Revenue Change

All Businesses Contributing to Higher Growth



Japan business

Japan pharma	Despite NHI price cut impact of 7%, revenue growth of new products helped boost overall revenue +4.4% (excluding anti-RA transfer)
OTC	In addition to inbound sales, domestic demand of new products added to +14.3% revenue growth
Surgical	+5.6% growth supported by sales collaborations with pharma business

Overseas business

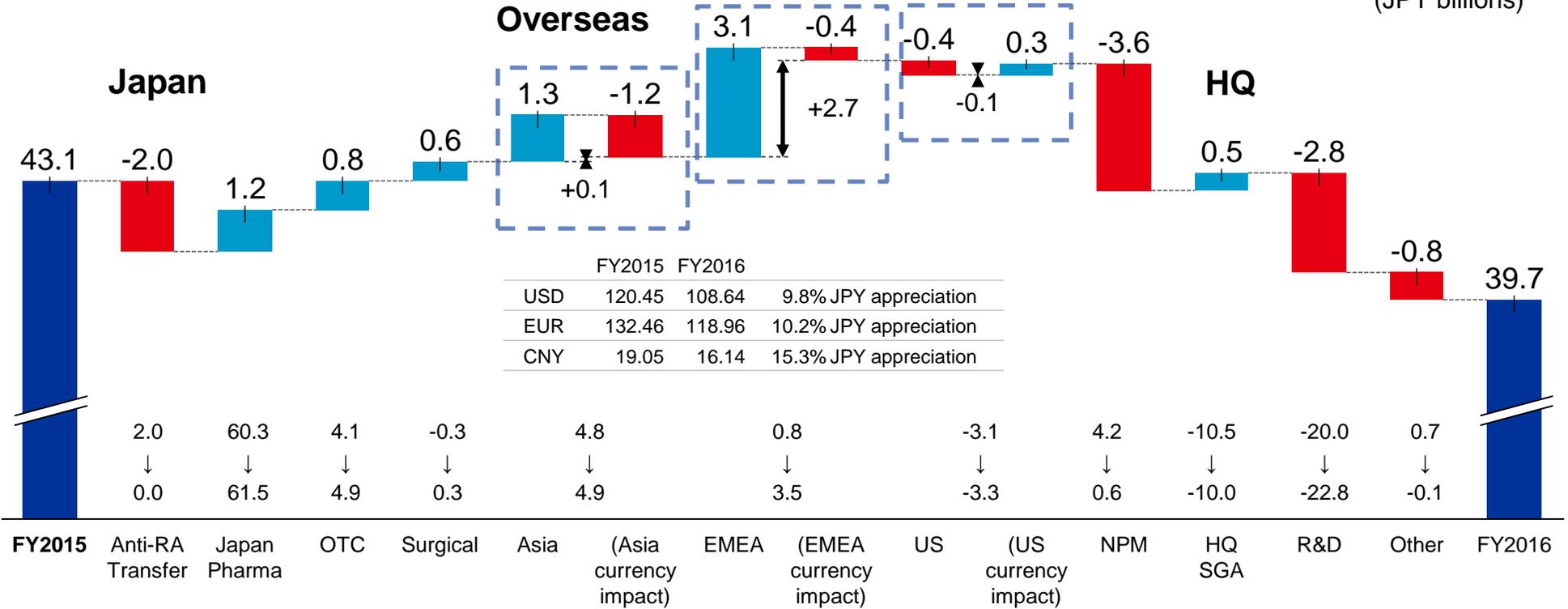
Asia	China and Korea continued to generate high growth, ASEAN market development continues, revenue growth: +4.3% (JPY) +21.0% (local currency)
EMEA	Growth on acquired Merck products and <i>Ikervis</i> : +11.3% (JPY), +23.9% (local currency)
NPM	Large declines associated with the transfer of Merck marketing rights by region to Santen's own sales

* Net profit margin (NPM) relating to the US-based Merck product acquisition.

FY2016 Core Operating Profit

Active Investments in Future Growth

(JPY billions)



Japan business

Overall higher with revenue growth

R&D expenses

In addition to pipeline progress (DE-109, 117, 122, 126) expenses higher with MicroShunt development

Overseas business

Asia

Strong local currency growth of +27.2%, while yen appreciation limited growth in yen to +1.8%

EMEA

With revenue growth and cost control, local currency OP grew by 5 times and was +360% higher in yen

US

With costs relating to DE-109 preparations, spending increased +18.6% (local currency) and +7% (yen)

FY2016 Profit / Loss Change

(JPY billions)	FY2015		FY2016		YoY
	Actual	vs Revenue	Actual	vs Revenue	
Revenue	195.3		199.1		1.9%
COGS	-72.8	-37.3%	-75.0	-37.6%	3.0%
SGA	-59.4	-30.4%	-61.7	-31.0%	3.8%
R&D expense	-20.0	-10.2%	-22.8	-11.4%	13.9%
Amortization on intangible assets associated with products	-6.2	-3.2%	-6.4	-3.2%	3.4%
Other income	45.0	23.0%	0.5	0.2%	-99.0%
Other expense	-1.7	-0.9%	-0.7	-0.4%	-57.2%
Operating profit (IFRS)	80.2	41.1%	32.5	16.3%	-59.5%
Finance income	0.8	0.4%	0.9	0.5%	13.6%
Finance expense	-1.5	-0.8%	-1.6	-0.8%	4.4%
Profit before tax	79.5	40.7%	31.8	16.0%	-60.0%
Income tax expense	-26.1	-13.4%	8.8	4.4%	-133.6%
<i>Effective Tax burden ratio</i>	<i>-32.8%</i>		<i>27.6%</i>		<i>60.4pt</i>
Net profit (IFRS)	53.4	27.3%	23.1	11.6%	-56.8%
ROE	22.6%		9.0%		-13.6pt
Core operating profit	43.1	22.1%	39.7	19.9%	-7.9%
Core net profit	29.2	15.0%	28.7	14.4%	-1.8%
Core ROE	12.4%		11.2%		-1.2pt

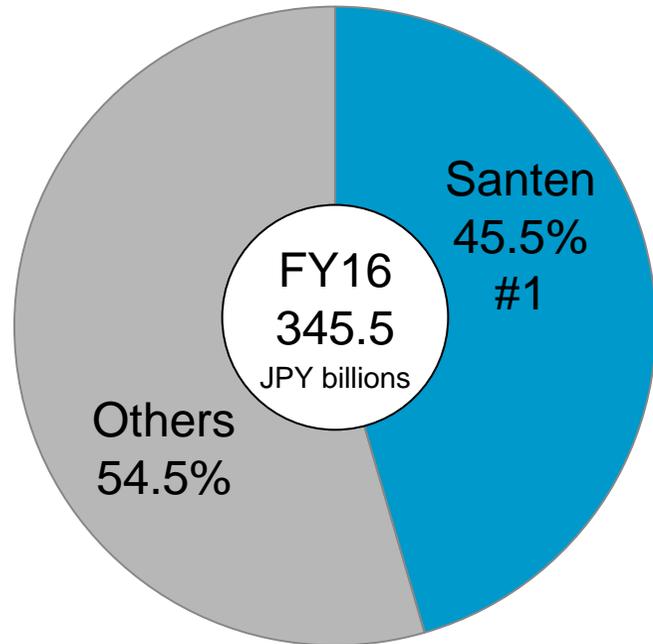
Progress in pipeline projects

Recognition of gain from anti-RA transfer in FY2015

Recognition of gain from anti-RA transfer in FY2015
Decrease in tax amount and tax burden ratio due to the tax incentive on R&D in FY2016

Increase in Japan Ophthalmic Pharmaceutical Market Share to 45.5%, #1 in All Therapeutic Areas

Japan ophthalmology market and Santen share



<i>Santen share</i>	FY15	FY16
Total	44.0% (#1)	45.5% (#1)
Anti-glaucoma	32.6% (#1)	32.2% (#1)
Anti-VEGF	65.7% (#1)	72.4% (#1)
Corneal / dry eye	63.4% (#1)	62.7% (#1)
Anti-allergy	36.3% (#2)	42.9% (#1)
Anti-infection	49.8% (#1)	44.1% (#1)

Major Santen products

Anti-glaucoma	<i>Tapros, Tapcom, Cosopt, Timoptol/XE, Trusopt, Detantol, Rescula</i>
Anti-VEGF	<i>Eylea</i>
Corneal / dry eye	<i>Diquas, Hyalein</i>
Anti-allergy	<i>Alesion</i>
Anti-infection	<i>Cravit, Tarivid</i>

<i>Change (YoY)</i>	FY15		FY16	
	Market	Santen	Market	Santen
Total	+7.3%	+17.6%	-0.6%	+3.0%
Anti-glaucoma	+6.5%	+8.4%	+1.5%	+0.1%
Anti-VEGF	+20.9%	+62.7%	-0.0%	+10.2%
Corneal / dry eye	+4.9%	+1.4%	-1.8%	-2.9%
Anti-allergy	+5.7%	+19.5%	+5.5%	+24.8%
Anti-infection	-2.5%	-10.1%	-11.2%	-21.5%

FY2017 Forecast

FY2017: Vital Step in Santen Group's Journey

To Become a Specialized Pharmaceutical Company with a Global Presence

As a leading ophthalmology company with close proximity to patients,
answer unmet patient needs through our commitment to treatments

■ Current Strengths

- Strong presence in Japan and Asia

Particularly strong contributions to glaucoma treatment with products and pipeline



■ Actions for FY17

- Further strengthen the presence and productivity of the Japan operations as a business pillar
- Capture growth in Asia and build EMEA market presence
- New growth opportunities
 - Contribute with current products and well differentiated future products (DE-109, DE-117, DE-128, etc.)

FY2017 P&L Forecast Overview

Core basis **Revenue:** Growth forecast in all businesses, particularly overseas
Operating profit: Increased spending on future growth (listed below), while also strengthening cost control systems. OP is forecast to increase.

- Investments in pipeline progress and the maximization of product value
- Investments in US entry preparation

IFRS Amortization on intangible assets associated with products will change substantially; non-recurring items; revenue and core operating profit to grow in proportion

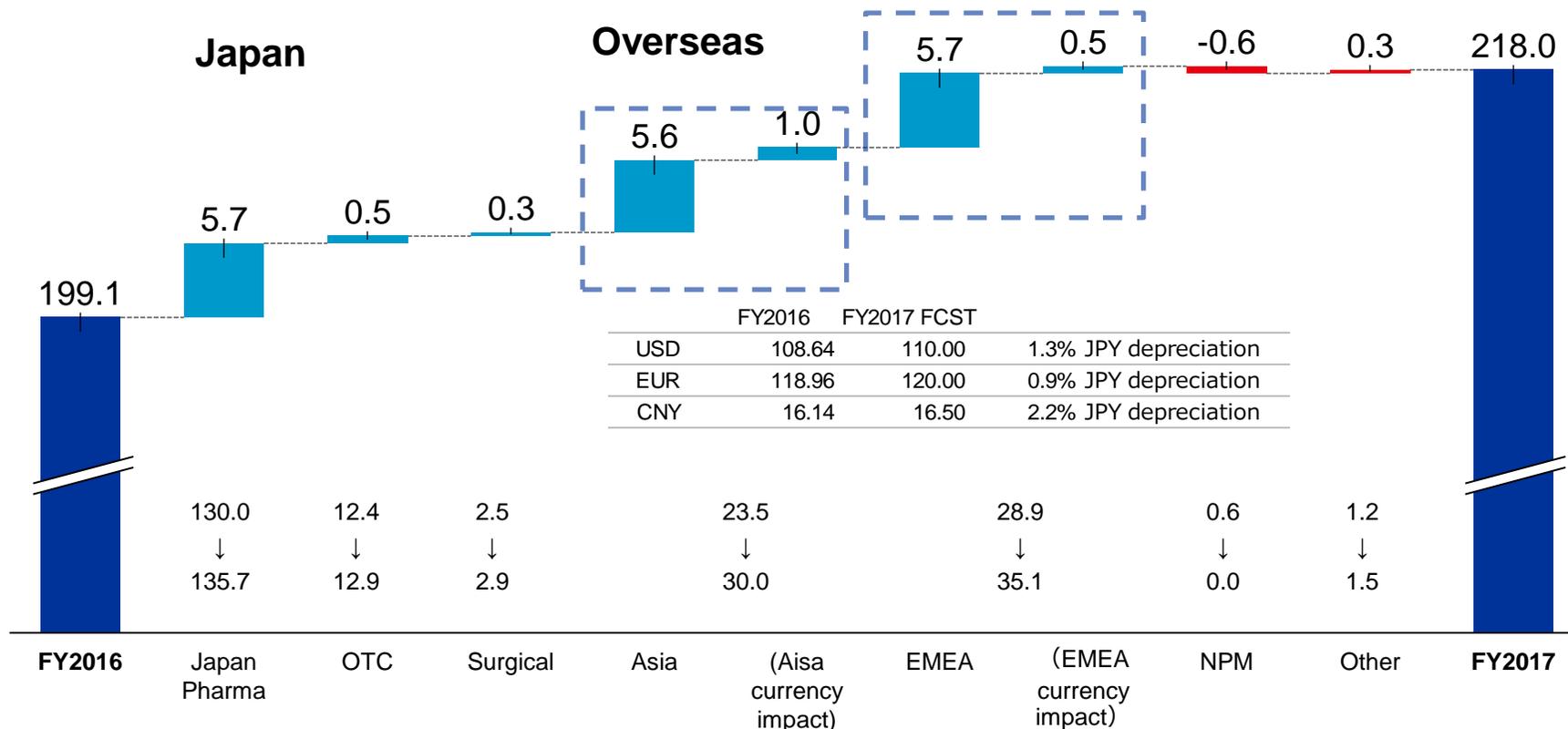
(JPY billions)	FY2016		FY2017		
	Actual	Forecast	YoY	Original MTP	
Core					
Revenue	1,991	2,180	9.5%	2,050	6.3%
COGS	-750	-810	8.1%		
SGA	-617	-680	10.3%		
RD expense	-228	-250	9.7%		
Operating profit	397	440	10.9%	515	-14.6%
Net profit	287	312	8.8%	350	-10.9%
ROE	11.2%	12.3%	1.1pt	14.0%	-1.7pt
IFRS					
Operating profit	325	374	15.2%		
Net profit	231	268	16.2%	310	-13.5%
ROE	9.0%	10.6%	1.6pt	13.0%	-2.4pt
USD	108.64	110.00		103.00	
EUR	118.96	120.00		141.00	
CNY	16.14	16.50		16.90	

Major variances between MTP and FY17 FCT
Progress above plan
Japan pharmaceutical growth (overcame NHI price revision and GE promotion plan by the government)
OTC growth (driven by in-bound demand)
Asia growth (mainly China)
EMEA
Newly added
Discontinuation of anti-RA business
LTD administration: Increase of expenses to enhance business platform
US market entry preparation
R&D: Increase of spending on late-phase pipeline projects including medical affairs activities
Inn-Focus

Moving to concrete activities to attain long term strategic vision to 2020

FY2017 Revenue Forecast to Grow 9.5%

(JPY billions)



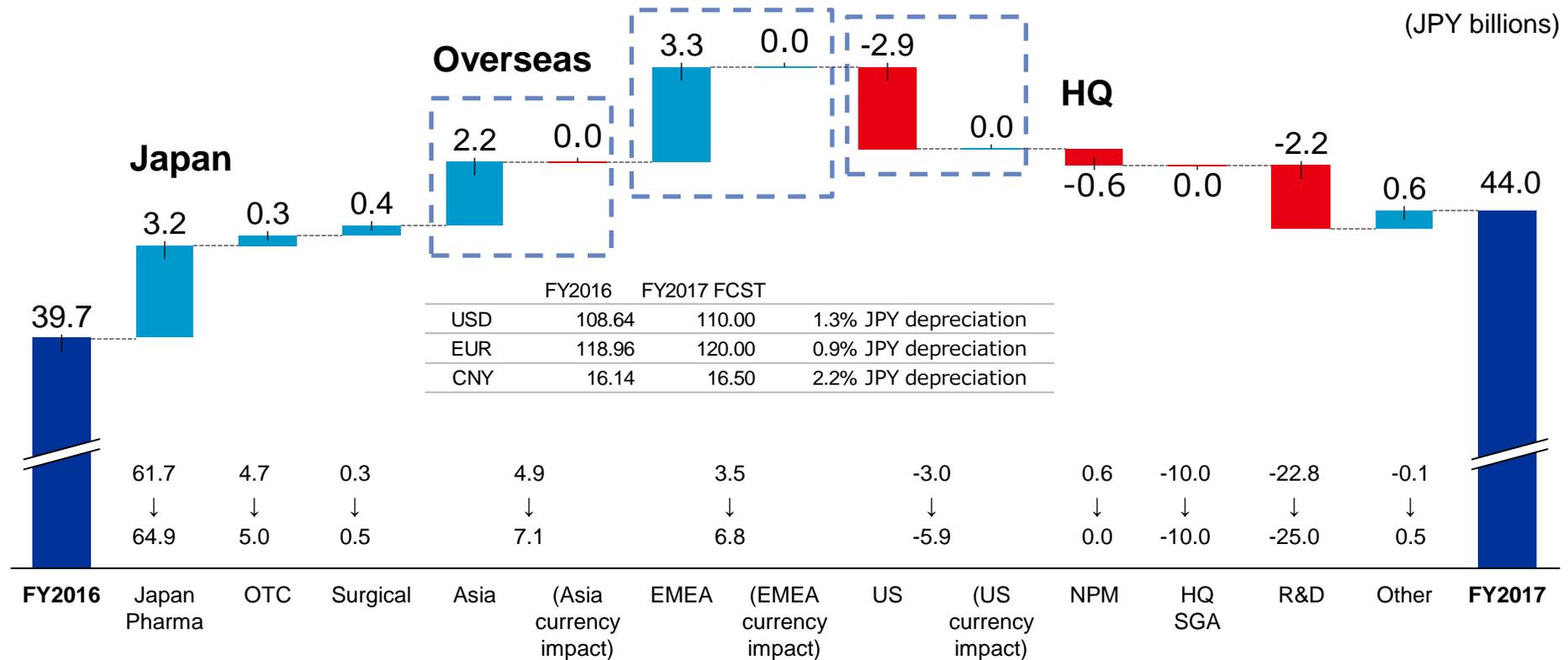
Japan business

Japan pharma	New measures to improve glaucoma treatment continuation and sales growth on expansion of sales channel of <i>Alesion</i>
OTC	Demand to grow from local demand with high function / high value products

Overseas business

Asia	Forecast to grow, particularly in China
EMEA	Focusing on timely maximization of new products

FY2017 Core Operating Profit Forecast to Grow 11%



Japan business Overall, increasing steady with revenue growth

R&D In addition to the progress of the pipeline, cost increase on activities to maximize the value of existing products

Overseas business

Asia Despite higher expenses to further strengthening operations, aim to increase core operating profit by keeping managing cost growth below sales growth rate

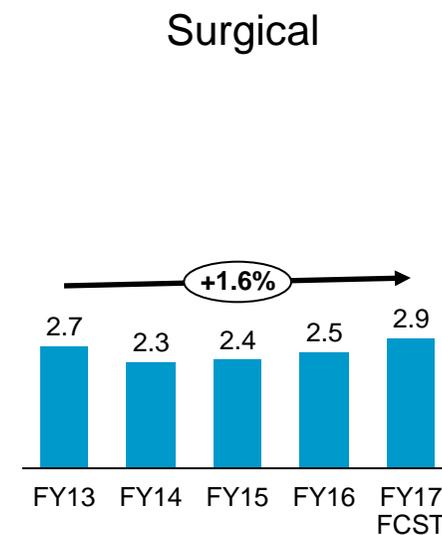
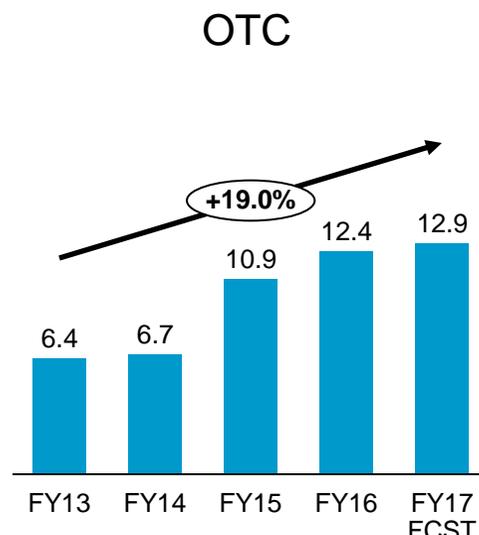
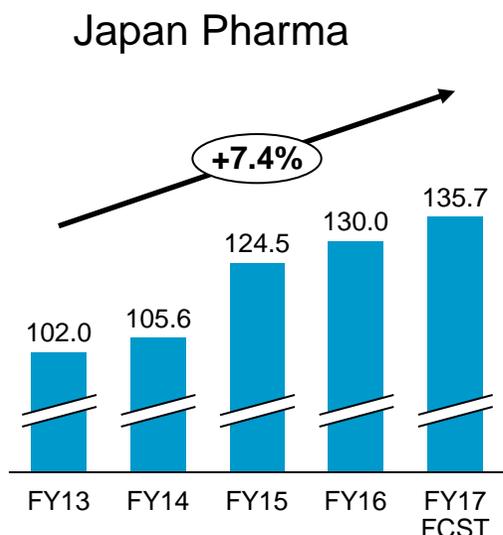
EMEA

US Higher costs for US market entry preparation

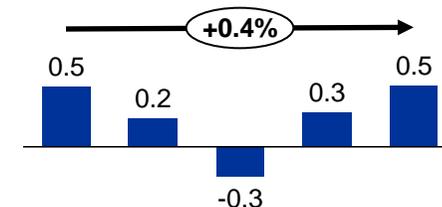
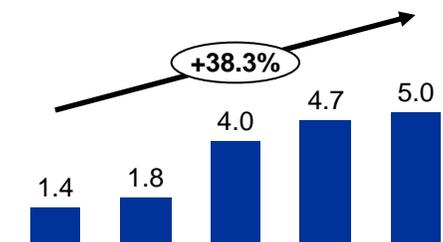
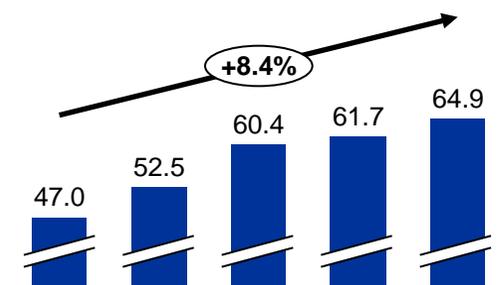
Performance by Business (Japan)

(JPY billions)

Sales



OP before R&D



Maintaining sales growth above market growth rate through continuous introduction of new products and new strategic actions

Sales strength keeping costs down and allowing OP to increase above sales growth

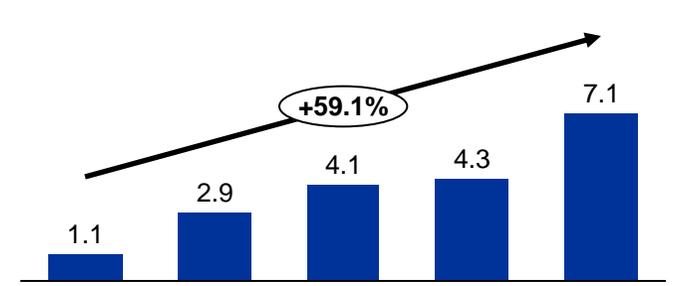
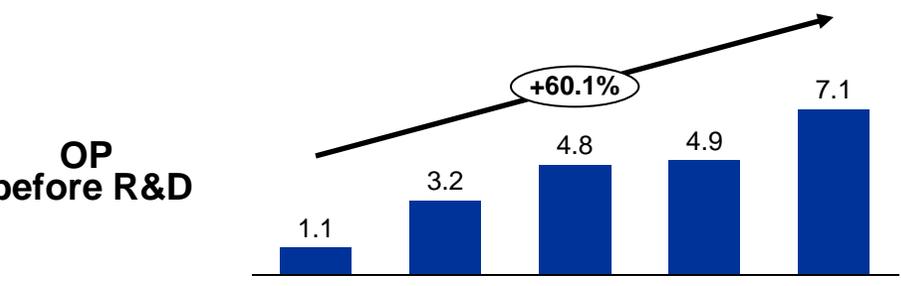
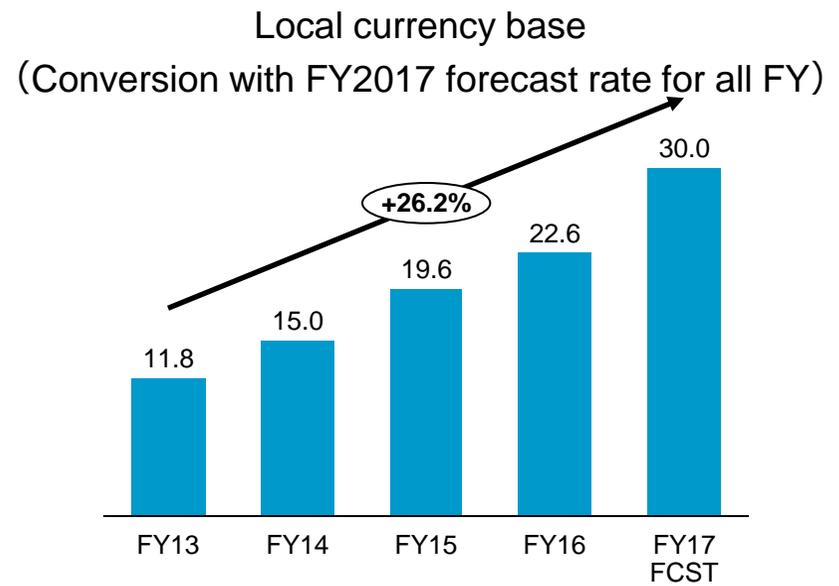
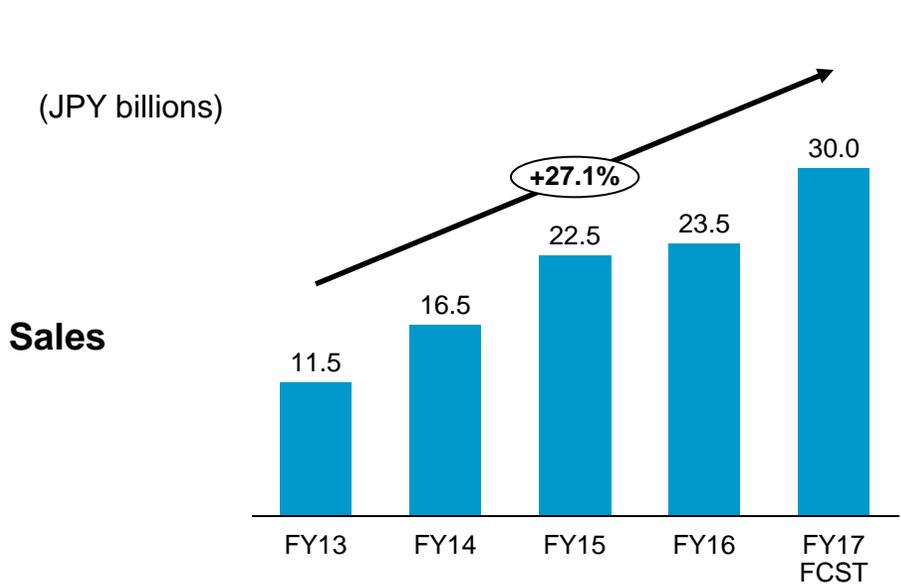
On top of inbound demand, succeeded in boosting local demand with high function / high value products

Striving to use expenses most effectively to maintain high OP margin

Reviews of manufacturing process led to cost of sales ratio improvement

Able to maintain profitability

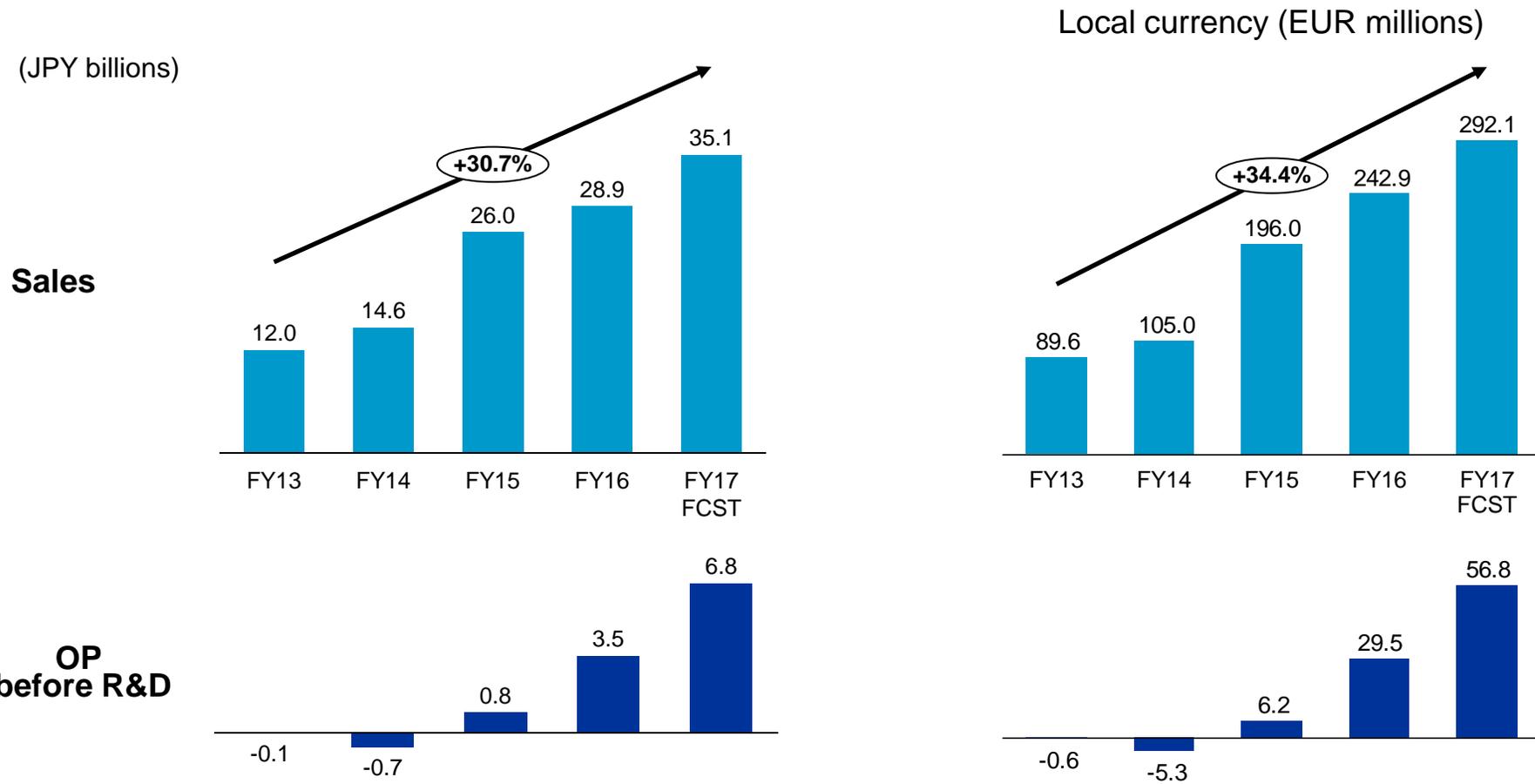
Performance by Business (Asia)



Focused on market penetration of products, continuing to grow dramatically, particularly in China and South Korea

Investments in growing market share are more than offset by sales growth, supporting operating profit growth at high levels both in local currency and Japanese yen terms

Performance by Business (EMEA)



While building Santen's unique sales organization, the company also maintained sales of acquired Merck products; Now focused on Ikervis market penetration / share expansion going forward

While operating losses were recognized in early stage, EMEA has been optimizing costs and realizing growth of operating profit both in Japanese yen and in local currency

U.S. Market Entry – Background and Strategy

US:

Large market size and strong growth

- The largest ophthalmic pharmaceutical market in the world is the U.S. (2017*: \$9 billion, 36% WW)
- Continues to drive the expansion of the WW market (+7%*, 2016 YoY)

Santen:

Strength as a specialized ophthalmic pharmaceutical company

- Customers: Doctors and patients in a limited range
- Products: Pipeline to offer new treatments
- Competition: Differentiation in product and market entry method

Approach for realizing sustainable growth

- Mitigate business risk by stepwise investment in specific areas
- Create optimal sales system for value maximization of niche products in specific areas
- Generate profit from the U.S. business by 2020

Raise global presence

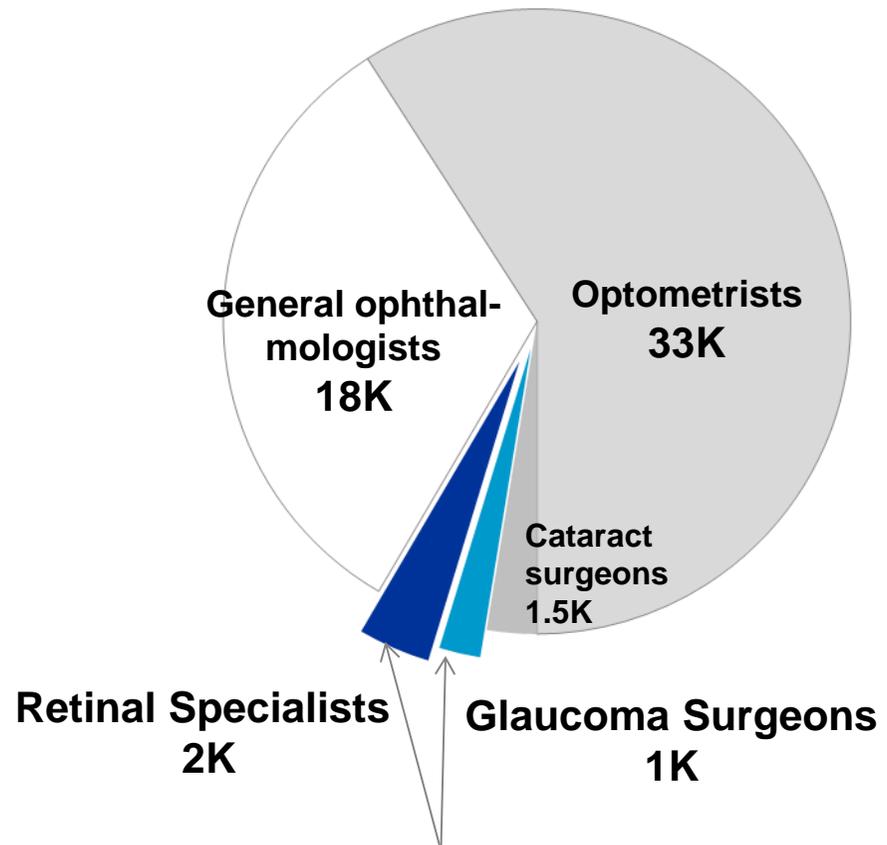
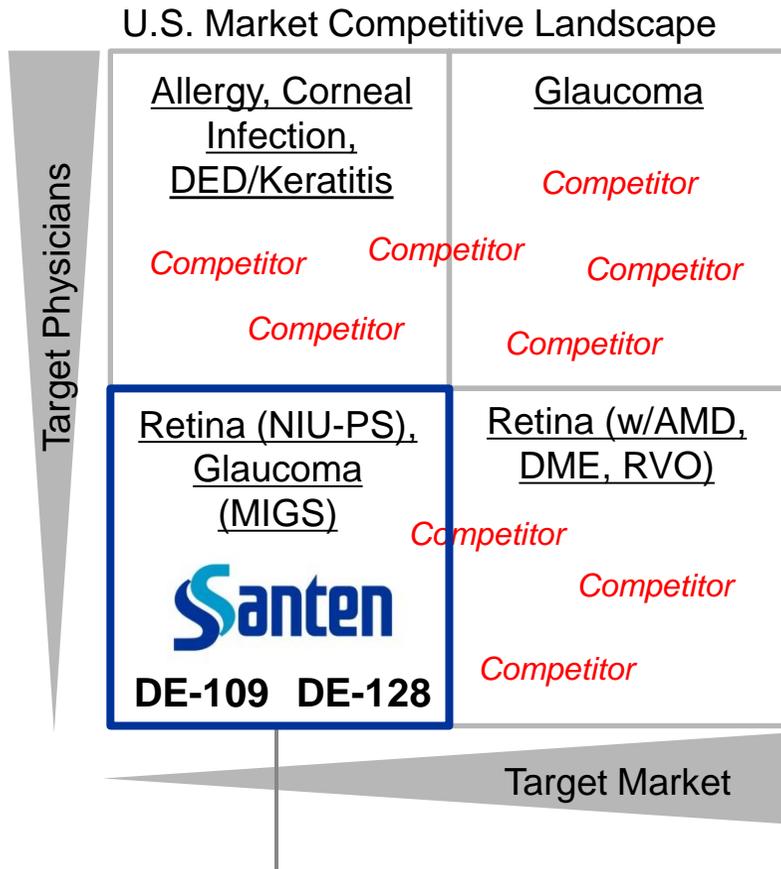
- In addition to existing business, raise global presence by sustainable growth in US business

Maximize business opportunities

Further contribution to ophthalmic treatments and patients

U.S. Market Entry - Strategic Approach

Focus on specialty segments with a lean sales force targeting a limited number of doctors



Sources: Rounded from (1) Bureau of Labor and Statistics <http://www.bls.gov/oes/current/oes291041.htm#>; and (2) Market Scope. 2013 Comprehensive Report on The Global Glaucoma Device Market.

Dividend for FY2016 and FY2017 Forecast

Annual Dividend

FY2016:

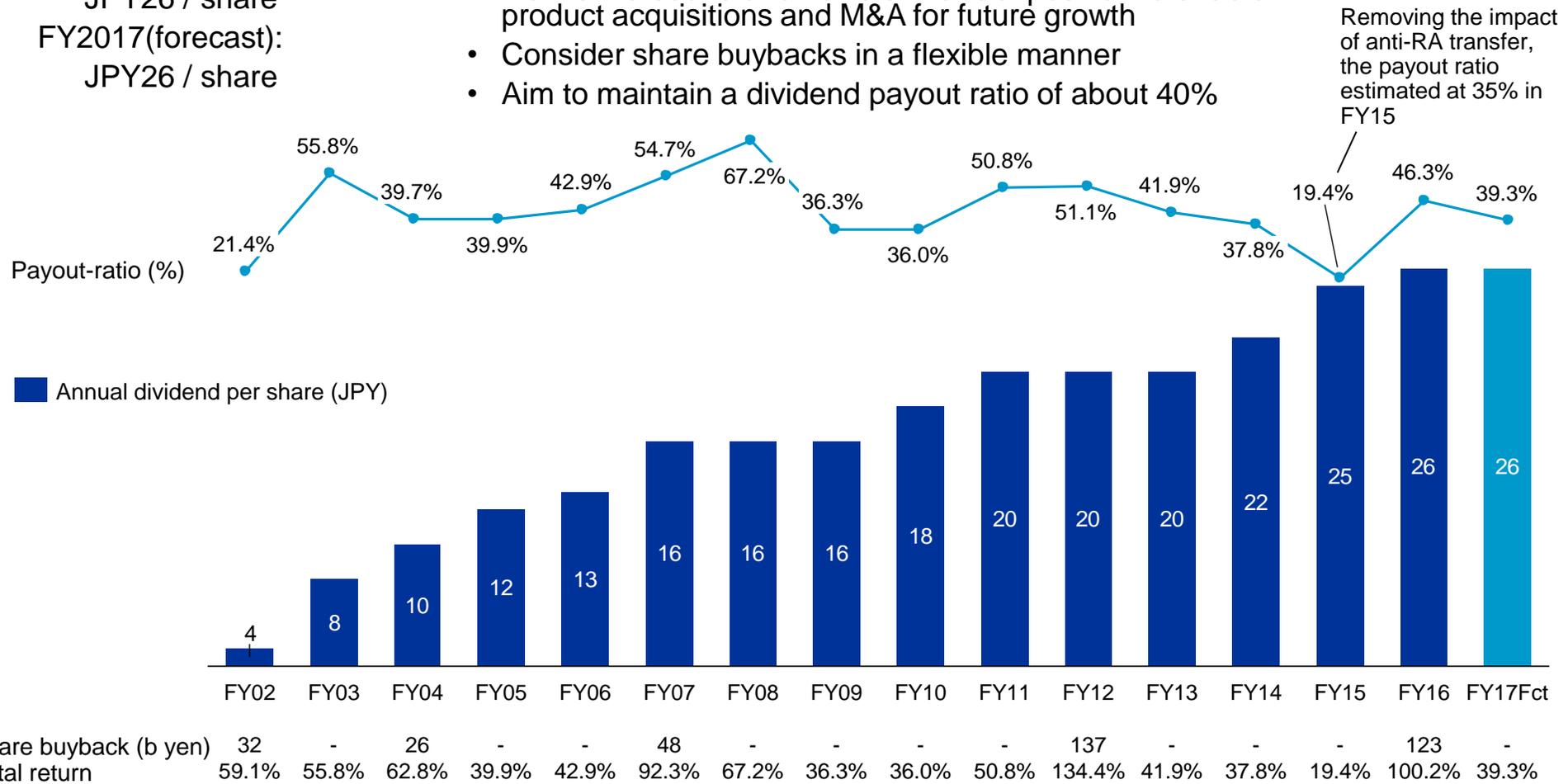
JPY26 / share

FY2017(forecast):

JPY26 / share

FY2014-FY2017 Shareholder return policy

- Stable and sustained return to shareholders
- Maintain a sound and flexible financial position to enable product acquisitions and M&A for future growth
- Consider share buybacks in a flexible manner
- Aim to maintain a dividend payout ratio of about 40%



Share buyback (b yen)	32	-	26	-	-	48	-	-	-	-	137	-	-	-	123	-
Total return	59.1%	55.8%	62.8%	39.9%	42.9%	92.3%	67.2%	36.3%	36.0%	50.8%	134.4%	41.9%	37.8%	19.4%	100.2%	39.3%

* 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.

Reference

FY2016 Financial Position Changes

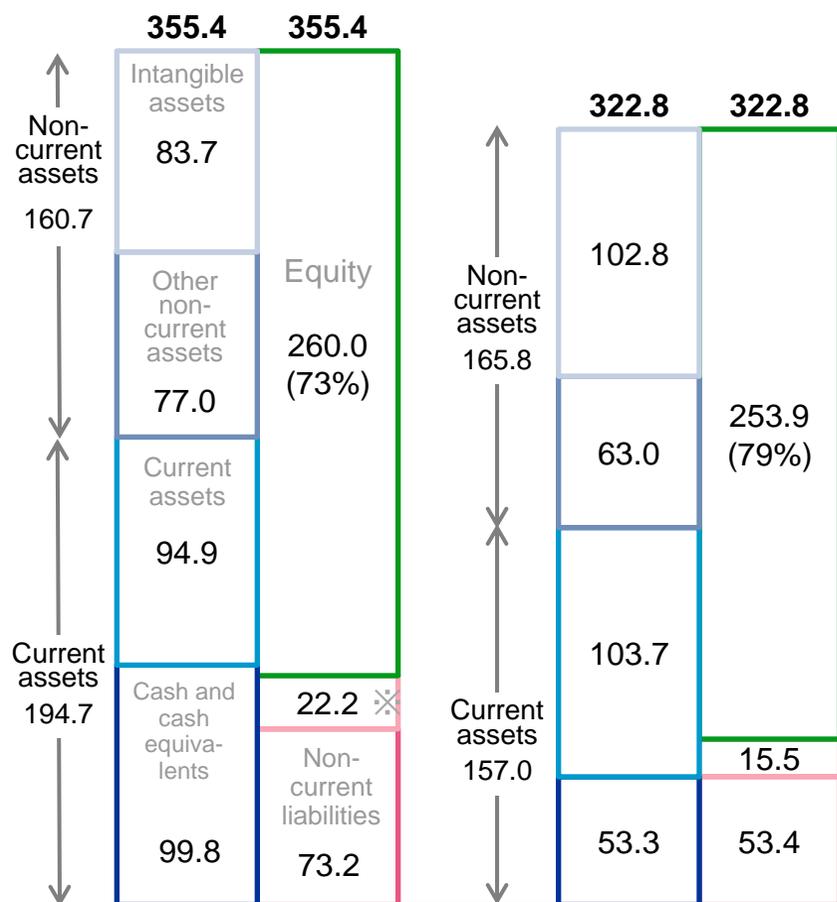
FY2015

FY2016

Increase of equity and cash due to anti-RA transfer

Increase of intangible assets, and decrease of cash from the acquisition of InnFocus

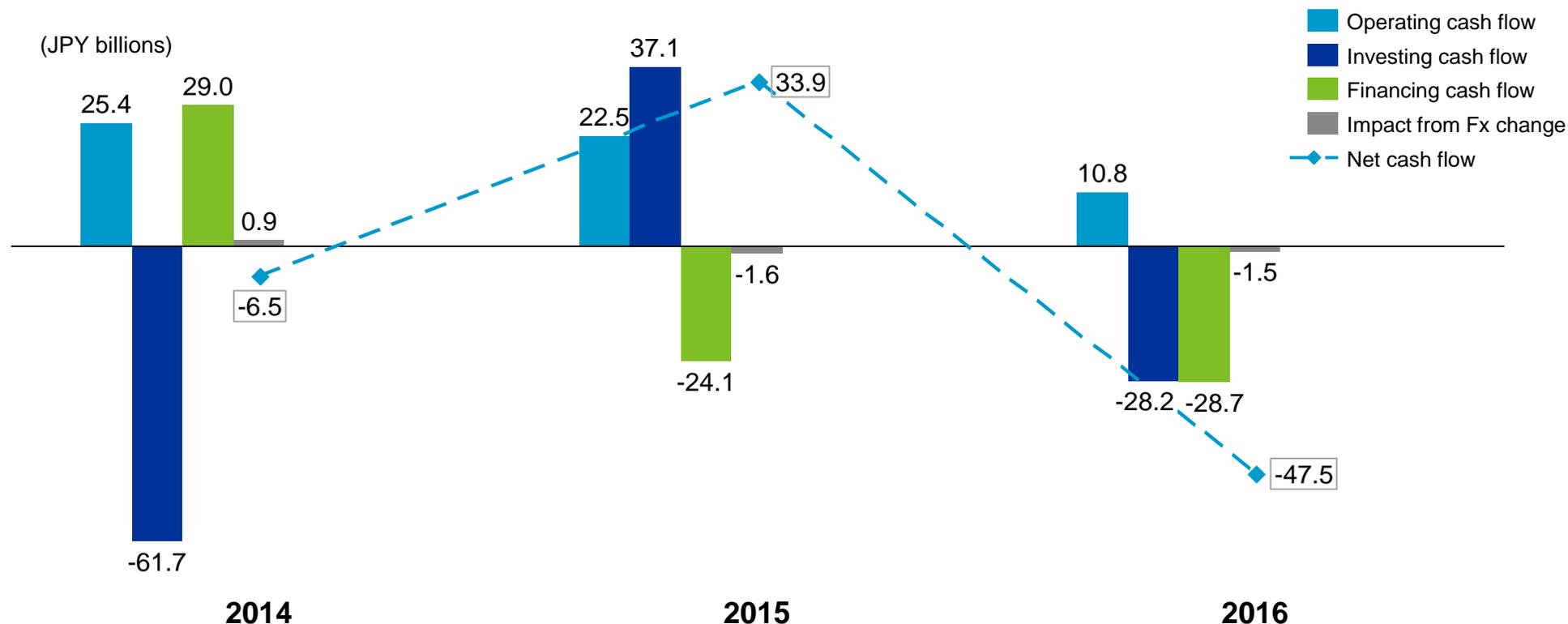
(JPY billions)



※ Current liability

	FY2015	FY2016	Change
Non-current assets	160.7	165.8	5.1
Property, plant and equipment	28.0	28.6	0.6
Intangible assets	83.7	102.8	19.1 Due to the acquisition of InnFocus
Financial assets	44.5	29.9	-14.6 Due to the valuation change of securities
Current assets	194.7	157.0	-37.7
Inventories	25.0	28.5	3.5
Trade and other receivables	66.0	71.0	5.0
Cash and cash equivalents	99.8	53.3	-46.5 Due to the acquisition of InnFocus and the payment of corporate tax on anti-RA transfer gain
Equity	260.0	253.9	-6.1 Due to the change of unrealized holding loss -9.2 Due to the increase of earned surplus +1.3
Non-current liabilities	22.2	15.5	-6.7
Financial liabilities	12.9	7.6	-5.3 Due to the repayment of long term debt
Deferred tax liabilities	4.0	2.6	-1.4
Current liabilities	73.2	53.4	-19.8
Trade and other liabilities	24.5	23.9	-0.6
Other financial liabilities	19.9	17.6	-2.3
Income tax payable	20.4	3.3	-17.2 Due to the payment of corporate tax on anti-RA transfer gain

FY2016 Cash Flow Changes



- Increase of investing activity cash-out due to the acquisition of Merck products
- Increase of financing activity cash-in due to long term debt for the Merck product acquisition

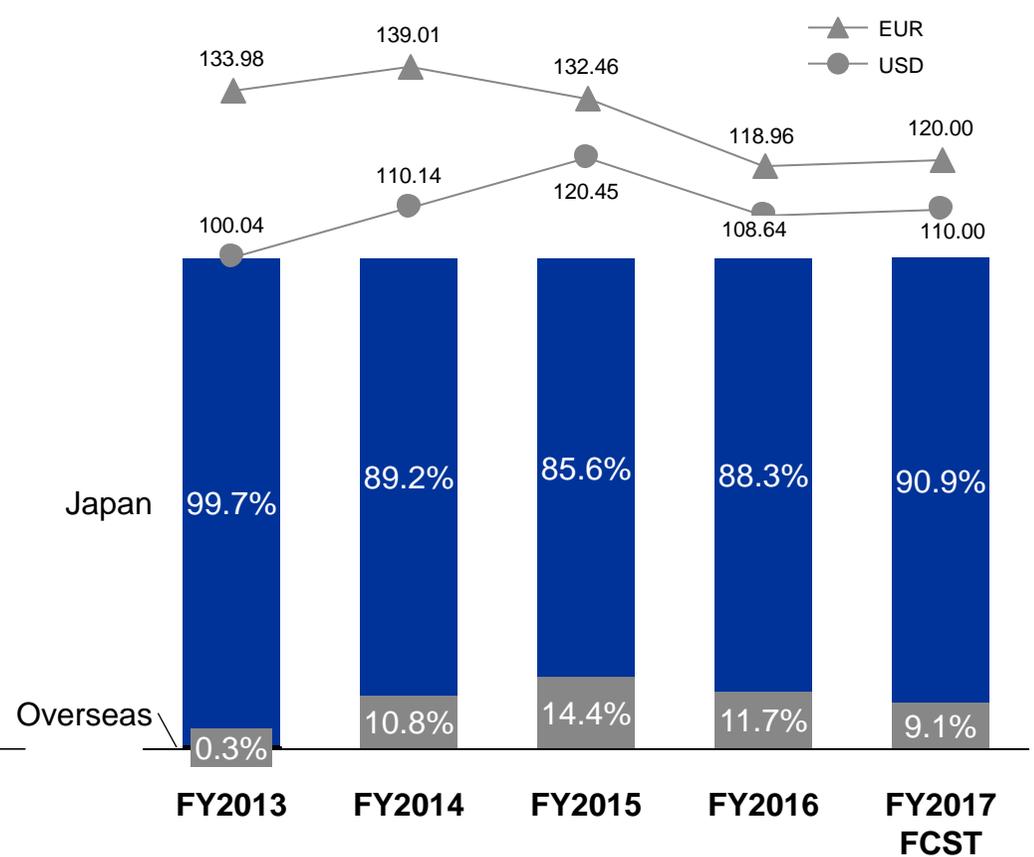
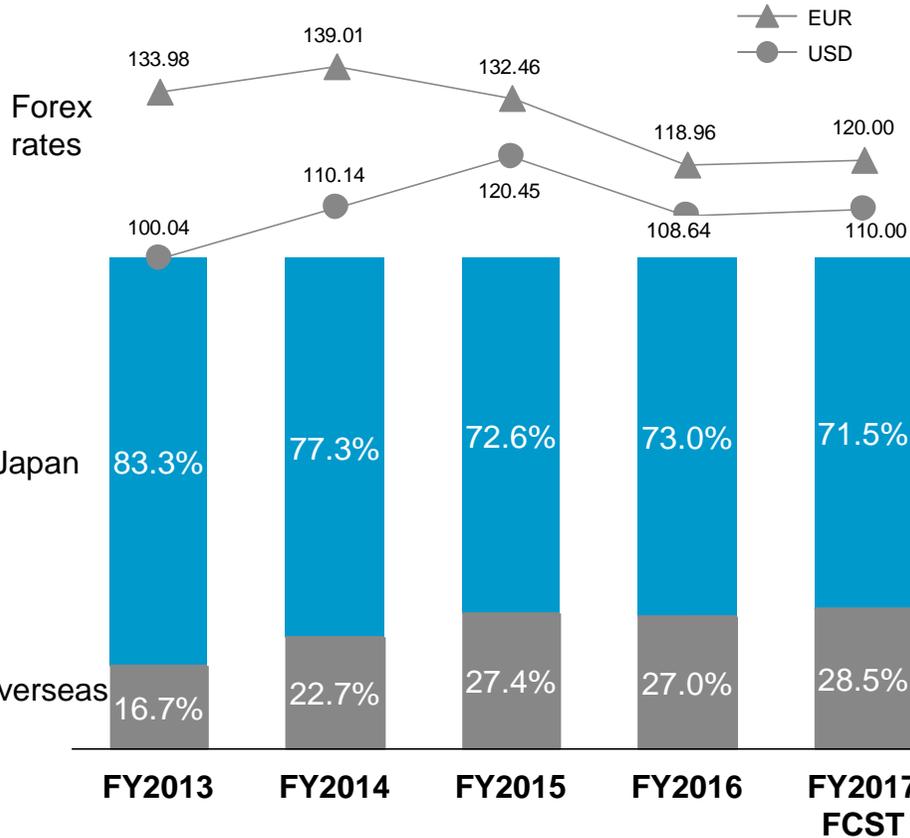
- Operating cash expenses increased on pension contributions reducing retirement benefit liabilities (cash flow from operating activities lower YoY)
- Revenue from investment activities increased due to the transfer of anti-RA business
- Expenditure on financing activities increased due to partial repayment of long-term borrowings

- Expenditures on operating activities increased due to income tax payments on gains on the transfer of anti-RA business in fiscal 2015 (Decrease in operating cash flow YoY)
- Investing activities cash outflow increased on InnFocus acquisition
- Expenditure on financing activities increased due to share repurchase and repayment of long-term borrowings

Trend of Japan / Overseas Sales Ratio

Revenue

Core Operating Profit (before R&D)



FY2016 Forecast:

Capital Expenditures / Depreciation & Amortization

(JPY billions)	FY2015	FY2016	FY2017	
	Actual	Actual	Forecast	YoY
Capital expenditure	4.5	5.2	7.7	46.9%
Depreciation and amortization*	3.1	3.5	3.8	10.4%
Amortization on intangible assets associated with products	6.2	6.4	6.6	3.2%
Intangible assets (Merck products)	5.2	5.4	5.6	4.3%

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

Transfer of Merck Ophthalmic Products: Project Results (as of March 31, 2017)

- Investment of 60.8 billion yen has brought 43.9 billion-yen accumulated operating profit
- Revenue and profit have remained above forecast

1. Accumulated Results in Merck business from FY2014 to FY2016 (Revenue and Operating Profit)
(excluding the amortization on intangible assets associated with Merck products)

(JPY billions)	FY2016				FY2014 to 2016	
	Forecast		Actual		Accumulated	
	Revenue	OP	Revenue	OP	Revenue	OP
Japan	1.8	8.0	2.0	10.4	5.9	26.3
Asia	3.0	1.6	3.2	1.8	24.8	10.4
EMEA	14.0	4.2	14.7	4.5	19.8	7.2
Other	-	-	-	-	-0.1	-0.1
Total	18.7	13.7	19.9	16.6	50.5	43.9

Accumulated return on investment is over 70% for 2 years and 9 months

Investment
(Payment for transfer of Merck assets)

60.8
billion yen

2. Forecast and Actual Revenue for FY2016

(JPY billions)	FY2016 Revenue			
	Forecast	Actual	Difference	vs FCST
Japan	1.8	2.0	0.2	109%
Asia	2.9	3.1	0.3	110%
EMEA	13.4	14.2	0.9	107%
NPM	0.7	0.6	-0.1	82%
Total	18.7	19.9	1.2	106%

Includes revenue from:

- ✓ Japan: *Trusopt*
- ✓ Asia, EMEA: *Cosopt, Trusopt, Timoptol/XE*,
- ✓ Newly-created subsidiaries in EMEA (Switzerland, Italy, Spain, UK) includes sales of *Tapros*

Status of Research & Development FY2016



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

Senior Corporate Officer

Chief Scientific Officer (CSO)

Head of Global Research & Development

Future Development and Regulatory Milestones

As of May 10, 2017

	Development status*	Indication	Development region: milestone
DE-117	P2b/3	Glaucoma/ ocular hypertension	Japan: Q2/Q3 FY17 filing
DE-126	P2a	Glaucoma/ ocular hypertension	US/Japan: Q1/Q2 FY17 P2b start
DE-128 (<i>MicroShunt</i>)	P2/3	Glaucoma/ ocular hypertension	US: calendar 2018~2019 P2/3 completion, calendar 2020~2021 launch
DE-109 (IVT sirolimus)	<u>Filing Accepted</u>	Uveitis	US: Dec 24, 2017 PDUFA date; Jan~Jun 2018 launch
	P3		EU: 2 nd half FY17 re-filing
DE-122	P1/2	Wet AMD	US: Q1 FY17 P2a start**, FY17 P1/2 completion

*Updated information is underlined

**Conducting in Philippines

Reference

Pipeline / Product Development Status (1)

As of May 10, 2017

Glaucoma/ ocular hypertension		P1	P2	P3	Reg review	Launch	Current status or <u>updated information</u>
DE-085 <i>Tapros</i>	CN	▶					
DE-111 <i>Tapcom</i>	Asia	▶					
	US	▶					
DE-117 EP2 receptor agonist	JP	▶ P2b/3					P2b/3 on-going
	Asia	▶					<u>Started multinational P3 study in Dec 2016</u>
DE-118 <i>Tapros Mini</i>	Asia	▶					
DE-126 FP/EP3 dual receptor agonist	US	▶ P2a					Preparing P2b in US and Japan
	US	▶ P2/3					P2/3 on-going
DE-128 <i>InnFocus MicroShunt</i>	Euro	▶					Approved

The company has discontinued development of DE-090 (calcium antagonist) upon reassessment of the project's PTS.

See Santen Consolidate Results for Fiscal 2016 for more details.
"Asia" above excludes Japan and China.

Pipeline / Product Development Status (2)

As of May 10, 2017

Kerato-conjunctival disease		P1	P2	P3	Reg review	Launch	Current status or <u>updated information</u>
DE-089 <i>Diquas</i>	CN	[Progress bar]					Filed in Jan 2012
	Asia	[Progress bar]					
	Euro	[Progress bar]					
Cyclokat <i>Ikervis/ciclosporin</i>	US	[Progress bar]					
	Asia	[Progress bar]					Approved in Korea, etc. in Mar 2017
	Others	[Progress bar]					Filed in Canada in Apr 2016
Vekacia ciclosporin	Euro	[Progress bar]					Filed and granted Priority Review status in Dec 2016

Retinal/ uveal disease		P1	P2	P3	Reg review	Launch	Current status or <u>updated information</u>
DE-109 IVT sirolimus	US	[Progress bar]					Filed in Feb 2017
	JP	[Progress bar]					
	Euro	[Progress bar]					Preparing to re-file
	Asia	[Progress bar]					Filed in Apr 2015
DE-122 Anti-endoglin antibody	US	[Progress bar P1/2]					Preparing P2a

The company has discontinued development of DE-120 (VEGF/PDGF inhibitor) upon reassessment of the project's PTS.

See Santen Consolidate Results for Fiscal 2016 for more details.

“Asia” above excludes Japan and China.

Santen's Strategic Investment in RPT

RPT is developing regenerative medicine products for debilitating retinal diseases

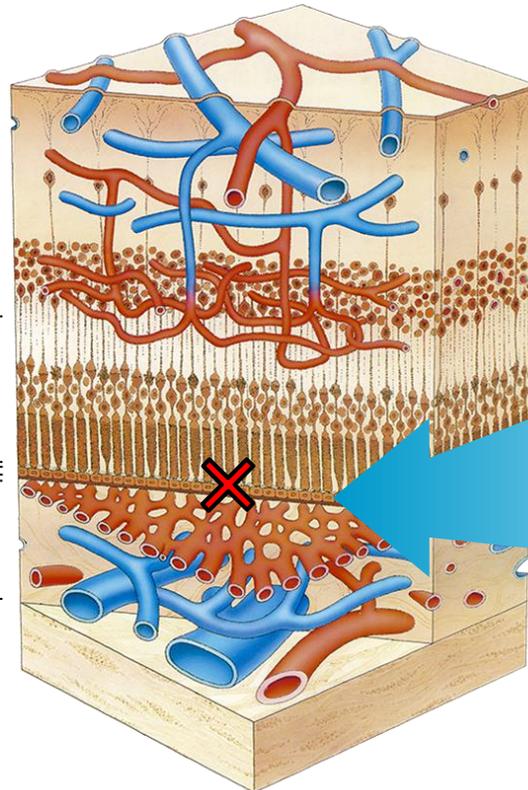
Dry age-related macular degeneration (dry AMD)

- Visual acuity slowly declines caused by retinal pigment epithelium (RPE) cells and Bruch's membrane defect

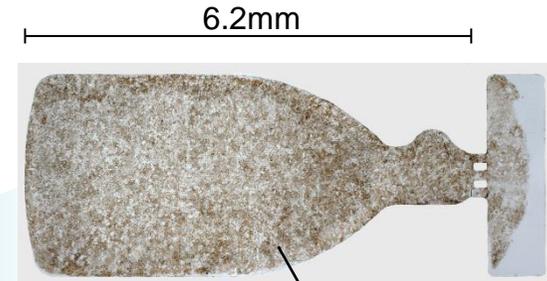
Regenerative Patch Technologies (RPT)

- P1/2 study on-going (dry AMD, US)
- Produce and deliver a monolayer of stem cell-derived RPE cells on a scaffold through a minimally invasive surgical approach

Retinal structure



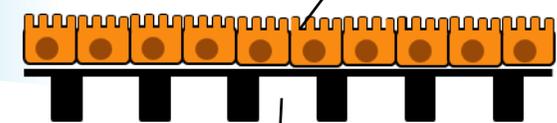
Patch (sheet)



Implant



Cross-section



Specially designed ultrathin membrane

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.



A Clear Vision For Life