FY2023-2025 New Medium-Term Management Plan Small Meeting for Securities Analysts/Q&A (April 14, 2023)

Q1
I understood you have implemented commercial excellence in Japan as its strength, and you are intending to utilize the Japanese model globally. What is the timeline? I would like to ask for a follow-up on commercial excellence.

A-1
Ito:
When we plan to launch a product, the method should be about setting a goal with aspirations regarding how much the product can contribute to patients, creating a detailed plan to achieve the goal, and then having the entire organization work towards it by implementing PDCA cycles.
I believe this approach is not just the case for Japan, but it is applicable worldwide.
Japan has already leveraged a completed model and I believe we can achieve results, by deploying its elements overseas.

Nakajima:
As Mr. Ito mentioned, the overwhelming strength of the Japanese business is that is has a solid “model” to build a marketing strategy. It took so long years to refine this model. Including this “model”, I find three points as key; ”consistency” that links the strategy to an action plan, “thoroughness” in carrying out activities at the site while monitoring KPIs and implementing PDCA cycles. While there are many ways to expand globally, I firmly commit to building the backbone in expanding Santen business globally moving forward. At the same time, the strengths that overseas businesses have polished will come in handy when executed. It is not necessary to entirely copy Japan's approach, and we want to expand the backbone that applies to all overseas businesses while leveraging the positive sides and strengths of each business.

Ito:
Concerning the core of commercial excellence, it is what Ms. Nakajima explained. However, when we say commercial excellence more broadly, for example, is it truly necessary to have 150 employees to increase sales to JPY15.0 billion while a company currently has JPY10.0 billion in sales with 100 employees? We could review in this aspect as Japan has increased productivity without increasing the number of MR in the past. Productivity is also factored in this new medium-term management plan. We do not expect to see the effects of commercial excellence rapidly during the period, but we think it is essential to strengthen organizational capabilities before promising products’ launch from FY2026 onward.

Q2-1
One additional question concerning previous question. I would like to ask for Ms. Nakajima’s impression since joining Santen. I hope Japan's commercial excellence could be well deployed across regions, but at the same time, I assume there may have been issues related to the overall company policy given the outcome in the past. From your point of view, what needs to be addressed or removed to work it well? What are you planning to apply from your past experiences?

A-2-1
Nakajima:
It has been approximately two months since I joined Santen, but I have already witnessed the company’s overwhelming strength in Japan as a specialty company in ophthalmology. In contrast to marketing strategies at pharmaceutical companies during my previous experiences, there are differences in the attention placed on detailed reasoning and depth in thinking. I also have a strong impression that Santen places great thoughts and considerations for medical professionals and patients. Thorough implementation of this method across regions is not an easy task. Especially in multi-country regions such as EMEA and Asia, opportunistic sales generation has been the utmost priority to be initially on a growth trajectory, and now we are at a stage where further market penetration in each facility is becoming important. The challenge we are currently facing is that there is no established framework or methodology, and the implementation on the fields has not been sufficient. Overseas business is just beginning to tackle the challenge, following the path that the Japanese business has taken.
From my past experiences leading commercial excellence for other companies, it ultimately comes down to the entire management team persistently sticking to the established framework and methodology patiently. I should be able to leverage my experience.

Q2-2-1
You mentioned some KPIs as part of the new medium-term management plan yesterday. Among those indicators including top and bottom line, could you specify KPI that you aim to especially commit to?

A2-2-1
Ito:
We strive to achieve everything that has been disclosed with great attention.

Q2-2-2
Would it be correct to understand that you have disclosed the sales and profits targets that are achievable to commit to?

A2-2-2
We have not disclosed anything that is unachievable, and we will strive to achieve everything.

Q3-1
I would like to ask for follow-up on the numerical targets. The direction that you presented before was aimed for profit improvement of JPY10.0-15.0 billion by FY25, but this time, you presented the figure close to the upper limit. Is this the minimum level or is it non-binding target you are aiming for? How confident are you to achieve this?

A3-1
Ito:
We do not include all changes in the plan since we assume various environmental changes within three years leading up to FY2025. But our basic policy is doing what we have set out to do. We are not optimistic and we aim even higher while achieving it steadily.

Q3-2-1
Regarding future direction, you mentioned that you will be focused on strengthening its foundation then enter the out-of-pocket treatment field from FY26 onward. I assume that mixed treatment in Japan is not allowed. How will you approach this? Also, can you discuss the business environment overseas and how you will tap into there?

A3-2-1
Ito:
It is not as though out-of-pocket treatment is ruled out by ophthalmologists in Japan. Actually, there have been some cases that out-of-pocket treatments using imported myopia drugs have been provided at the request of patients. Also, different medical treatments from insurance coverage such as multi-focus intraocular lenses in cataract surgery have been offered in clinics. Although many are covered by insurance, I think there is plenty of room to expand out-of-pocket treatments as well. For example, we have conducted a survey in Japan regarding whether doctors are willing to implement out-of-pocket treatments for drugs related to myopia or ptosis if patients request so. We have confirmed many doctors are willing to respond to patients' requests. I also have an impression that it is easier to expand in overseas rather than in Japan.

Q3-2-2
Are there any differences amongst regions?

A3-2-2
Ito:
Our EMEA team is slightly conservative regarding out-of-pocket treatment, but I do not necessarily think that is the case.

Q4-1
The revenue target per employee is set at a CAGR of 7%. Looking at the past three years' performance disclosed in Q3 FY2022, Asia has grown by 6%, China by 2%, and EMEA has declined by 2%. I have a feeling that EMEA is challenging. Could you share your views on each region?

A4-1
Nakajima:
With regards to improving productivity, I think we have highly achievable measures for all three regions.
In terms of cost, there are some overlaps between regional and country-specific roles and converging them could change the base for personnel expenses. As for Asia and EMEA, which are multi-country regions, we could realize cost reductions by reviewing country's sales operation system and Go To Market model including digital customer coverage mediated by people. In particular, In EMEA, it is common for medical professionals to communicate with pharmaceutical companies through digital tools, so not only cost reductions but also sales growth can be expected.

Q4-2-1
Regarding the entry into out-of-pocket treatment market from FY2026 onward, it seems the sales of ptosis treatment in the United States as the original country, are struggling. From the perspective of analysts who are used to Japan's insurance treatment, we doubt the feasibility with the costs incurred. How much costs and measures are you incorporating?

A4-2-1
Ito:
We do not expect substantial costs to be incurred during this new medium-term management plan as the launch is scheduled from FY2026 onward. As I mentioned earlier, we have conducted a survey to assess the bottleneck in Japan. For example, though there is a discussion point to create market in ophthalmology or other department, we understand a lot of patients are willing to receive treatment in ophthalmic clinics while there are some emotional burdens to visit. From the point of ophthalmologists' view, over 60% of them intend to give treatment to patients if they are willing to. This will also lead to expand the patients with insurance treatment, as there might be some likely cases of complication of glaucoma among the ptosis patients. We can incorporate initiatives in our daily activities. While we understand that treatment continuation is one of the issues for ptosis and myopia, we believe we can expand the market by developing a new sales activity framework and technologies.

Koshiji:
From the cost point of view, the contribution profit ratio in Japan was about 38%, a little under 40% in FY2021. The contribution ratio is expected to be improved, and the costs including upfront investment will not have material impacts on the profit.

Q4-2-2
You showed leverage points for ptosis in the presentation, would it be correct to understand that 60-70% of people intend to receive treatment in ophthalmology?

A4-2-2
Ito:
The slide shows the current situation in which about 60-70% of people are visiting ophthalmologists with others ex-ophthalmology practitioners. As for patients who are not receiving medical care, they have the intention to go see ophthalmologist if possible.

Q4-2-3
You touched upon the peak sales for myopia and ptosis. When do you expect to realize?

A4-2-3
Ito:
We cannot state the exact timing at this point, since the launch timing varies by regions and we are still in the development phase. I think we will launch in Japan first, followed by China. We will prepare to create each market quickly.

Koshiji:
We believe that we can maximize sales in ptosis at a rapid pace from FY2026 onwards.

Q5-1
I would like to confirm about commercial excellence. From Ms. Nakajima's explanation, I have the impression it will take some time. Regarding the image of how you will improve CAGR 7%, should I expect a gradual or sudden material improvement?

A5-1
Nakajima:
We have identified issues we can address now. It is not impossible to start tracking KPIs and implementing PDCA at a rapid pace immediately which we are currently doing in Japan as our strength. We will execute what we can and harvest the results early timing in FY2023-2024.
Although it will take some time for every region to reach the same level as Japan, we will proceed to see the results by the end of FY2023 and FY2024 respectively. As for the timing, we will continue to improve each year gradually. There are differences among region, and there may be some variations in progress. However, we aim for a steady improvement on a company-wide basis.

Q5-2
The contribution profit margin in China and Asia are 40% while they were 43% in MTP2025. What is the reason behind for the decline, regardless of commercial excellence effect?

A5-2
Koshiji:
There are some changes in assumptions. In China, we are expecting increase in COGS ratio and decrease in gross profit margin due to the impact of VBP resulting in a decrease in unit selling price. As for Asia, South Korea accounts for over 50% in sales, and we are expecting increase in COGS ratio due to a change in product mix, when looking at the generic products' erosion conservatively.

Q6-1-1
I understand that this new medium-term management plan reflects your personality, which is to take an orderly approach to achieve what you want?

A6-1-1
Ito:
When I was responsible for Japan before assuming the role of CEO, I thoroughly implemented strategies to lead the results. This way of thinking might be reflected in this new medium-term management plan.

Q6-1-2
Is it fair to assume that the goals set forth have taken into account certainty of execution and therefore should be interpreted in a different context from the former MTP2025, which were stretched?

A6-1-2
Ito:
I set ambitious goals with high aspirations and executes them. However, when explaining the management plan to the capital market, I do not factor in optimistic or factors with very limited visibility.

Q6-2
It may seem somewhat conservative given feasibility. Biosimilars of *Eylea* have not yet been approved in Japan and there seems more room for growth for *Diquas* and *Alesion*. Considering the impact of VBP in China and the situation in South Korea, the outlook for China and Asia seems to be appropriate. On the other hand, Europe seems weak considering new products. Taking these into consideration, would it be fair to say there may be upside potential in Japan and Europe?

A6-2
Ito:
In Japan we assume that generics of our mainstay products will come out at the next timing, but there is a possibility that they may not happen due to patents obstacles. There is also a possibility of achieving better results. As you pointed out, in Europe, competitive products in our mainstay area of glaucoma, such as ROCK inhibitors and *Catioprost* will be expected. For Europe, we expect to achieve higher results than the current plan simply if we implement PDCA properly.

Q6-3
While I thought this new mid-term plan follows the standard plan in the pharmaceutical industry in the way in which it highlights pipeline potential, I thought an alternative way of presenting was also possible. While it takes time for pipelines like myopia, I also think it makes sense to remind ourselves the uniqueness of the eye drop market. There is no comparable at a scale similar to Santen's. If you could show the uniqueness of the industry of ophthalmic solution, such as the high barriers to entry, it would be possible to get recognition not only from pharma analysts but also from generalists.

A6-3
Koshiji:
I understand that the initial CAPEX is substantial and the business structure is equipment-intensive. In addition, the market for ophthalmic drugs itself is not large, so there may be entry barriers when considering the burden of CAPEX and return.

Ito:
Considering API procurement and manufacturing costs, I believe we have advantages from that perspective.

Q7-1-1
I understand ophthalmology is unique and is difficult for GE to penetrate. I would like to ask Ms. Nakajima joining from outside of ophthalmology whether this industry is unique in terms of cost structure and change in external environment and GE penetration is difficult.

A7-1-1
Nakajima:
It is premature for me to take a stance at this point on this. Ophthalmology is said to have its own unique traits and I think that holds true relative to other general drugs, but whether that holds true in the future is a different matter and I would like to refrain from providing an answer to this question at this point in time.

Q7-1-2
Do you think the outlook for major products such as *Diquas, Tapros* and *Alesion* in Japan are reasonable?

A7-1-2
Nakajima:
I do not feel any gap at all.

Q7-2-1
The core operating profit target for MTP2025 was JPY75.0 billion. You mentioned earlier that you are setting higher aspirational internal targets. Are you setting internal targets at such levels; i.e. MTP2025/JPY 75.0 billion levels?

A7-2-1
Ito:
In developing this new medium-term management plan, I have been conducting extensive assessments for the past six months since assuming the functions of CEO. I would like to place a focus on how much upside I can expect from each region. I expect upside from Japan and Europe and would like to aim higher with that being reflected in the fiscal year budgeting process.

Q7-2-2
I'm at a loss because I can't see the future of China business. If you were to cite a risk for China to remain largely short of expectations, what factors should be considered?

A7-2-2
Ito:
Might include factors such as government policy changes. We are not optimistic in terms of products outlook. It is difficult to incorporate large environmental changes.

(End)