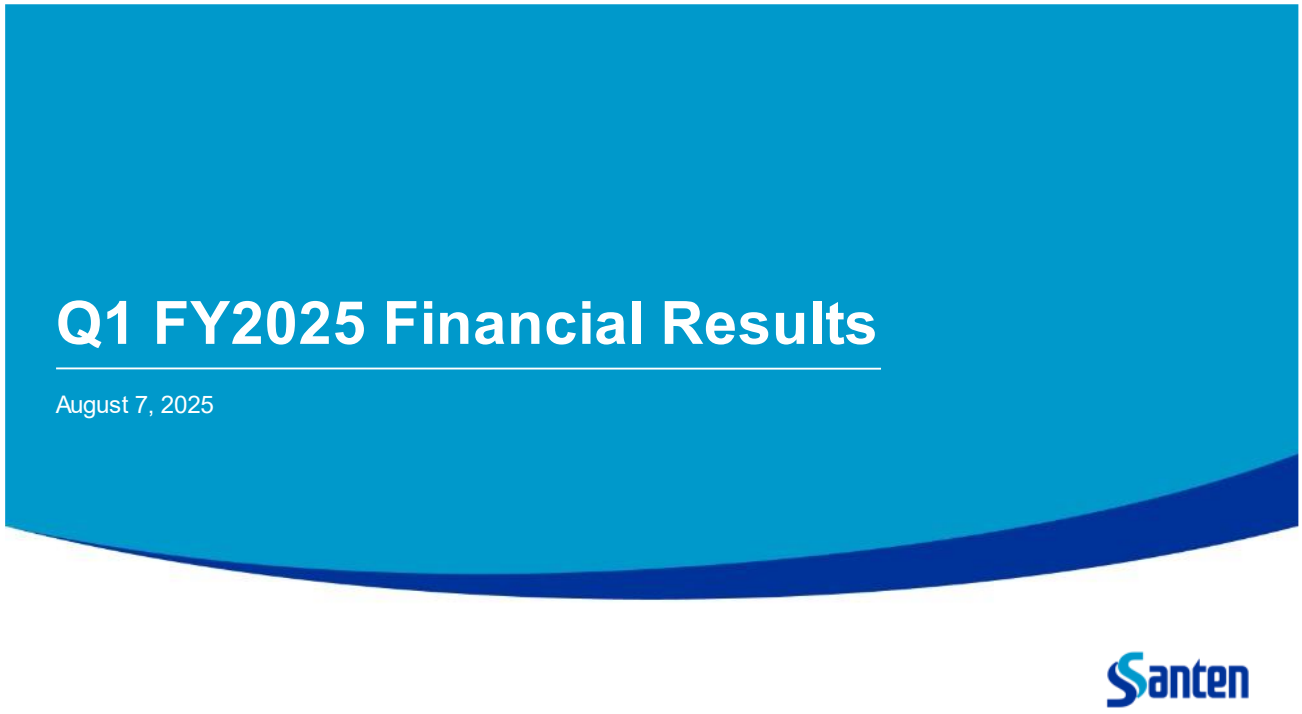
Q1 FY2025 Financial Results Transcript



Q1 FY2025 Overview

Given the anticipated H2 FY2025 skew in revenue and profit, Q1 YoY declines were more accentuated relative to full-year guidance. Nonetheless, performance remains on track with Company expectations

- **Q1 FY2025 results**
  - Revenue: JPY 68.7 billion (-8.1% YoY)
  - Core OP: JPY 9.7 billion (-38.9% YoY)
  - Net profit attributable to owners of the company: JPY 5.9 billion (-44.7% YoY)
- **Business update**
  - *Diquas LX*: Re-initiated manufacturing activities with aim to ship in H2
  - Mid-to long term growth: Launch of eye drops to slow myopia progression (*Ryjunea)* in Europe/ Filed in Asia, Filed STN1013900 (glaucoma) in Japan
- **FY2025 forecast**
  - May 13 disclosed guidance maintained
- **Shareholder returns**
  - Share buyback of up to JPY 35.0 billion currently underway, scheduled May 22 to November 5, 2025 (Executed JPY 14.1 billion as of July 31)

3

Koshiji: My name is Koshiji. Please see page three.

In Q1 of FY2025, both revenue and profit were down compared to the same period last year.

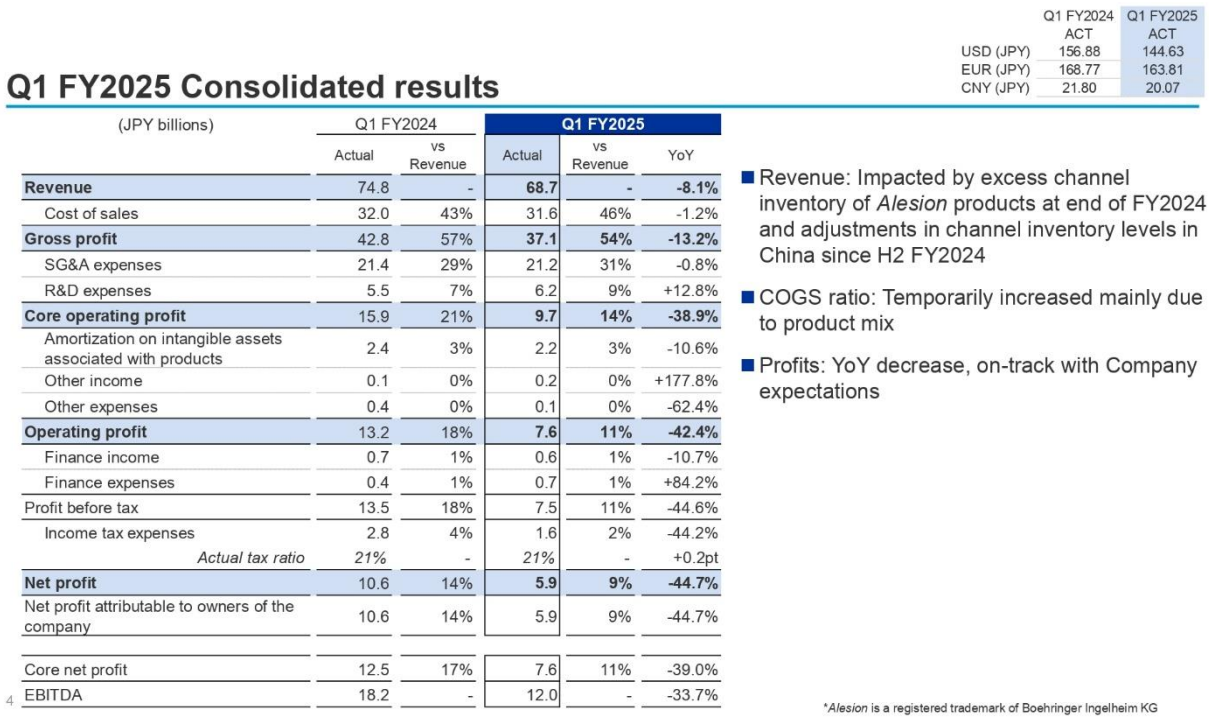
Revenue decreased by 8.1% to JPY68.7 billion and core operating profit decreased by 38.9% to JPY9.7 billion.

Although the percentage of progress toward the full-year earnings forecast announced in May for the current fiscal year is low, the drivers of revenue and profit for the current fiscal year are weighed toward H2, and the results are in line with our internal forecast.

In addition, there are two other topics in Q1 related to business and pipelines.

First of all, with respect to *Diquas LX*, as we explained in the May final financial results, we continue to make preparations based on the assumption that shipments will resume in H2, and we have already resumed production. We will notify you as soon as the resumption of shipments is confirmed.

In relation to the new product pipelines, which will drive medium- to long-term growth, we are making steady progress in myopia, glaucoma, and other areas. This will be explained later by Sallstig.



	Q1 FY2024 ACT	Q1 FY2025 ACT
USD (JPY)	156.88	144.63
EUR (JPY)	168.77	163.81
CNY (JPY)	21.80	20.07

Q1 FY2025 Consolidated results

(JPY billions)	Q1 FY2024		Q1 FY2025		
	Actual	vs Revenue	Actual	vs Revenue	YoY
Revenue	74.8	-	**68.7**	-	**-8.1%**
Cost of sales	32.0	43%	31.6	46%	-1.2%
Gross profit	42.8	57%	**37.1**	**54%**	**-13.2%**
SG&A expenses	21.4	29%	21.2	31%	-0.8%
R&D expenses	5.5	7%	6.2	9%	+12.8%
Core operating profit	15.9	21%	**9.7**	**14%**	**-38.9%**
Amortization on intangible assets associated with products	2.4	3%	2.2	3%	-10.6%
Other income	0.1	0%	0.2	0%	+177.8%
Other expenses	0.4	0%	0.1	0%	-62.4%
Operating profit	13.2	18%	**7.6**	**11%**	**-42.4%**
Finance income	0.7	1%	0.6	1%	-10.7%
Finance expenses	0.4	1%	0.7	1%	+84.2%
Profit before tax	13.5	18%	7.5	11%	-44.6%
Income tax expenses	2.8	4%	1.6	2%	-44.2%
Actual tax ratio	*21%*	-	*21%*	-	+0.2pt
Net profit	10.6	14%	**5.9**	**9%**	**-44.7%**
Net profit attributable to owners of the company	10.6	14%	5.9	9%	-44.7%
Core net profit	12.5	17%	7.6	11%	-39.0%
EBITDA	18.2	-	12.0	-	-33.7%

- Revenue: Impacted by excess channel inventory of *Alesion* products at end of FY2024 and adjustments in channel inventory levels in China since H2 FY2024
- COGS ratio: Temporarily increased mainly due to product mix
- Profits: YoY decrease, on-track with Company expectations

4

**Alesion* is a registered trademark of Boehringer Ingelheim KG

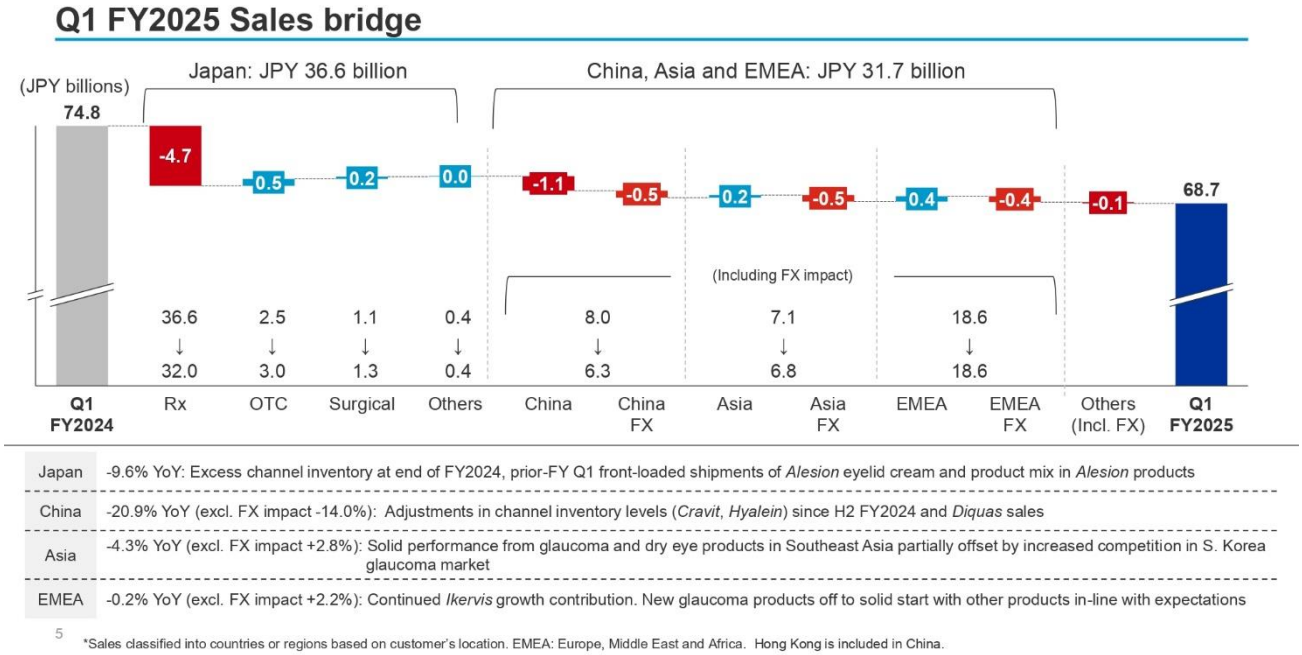
Please see page four. This is the P&L situation for Q1.

First, revenue was JPY68.7 billion, mainly due to inventory adjustments in Japan and China. Cost of sales temporarily increased by 3 percentage points from the same period last year, mainly due to changes in product mix.

In addition, SG&A expenses are progressing as planned.

As for R&D expenses, they decreased in the last fiscal year mainly due to the difference in the number of pipelines in the clinical trial stage, but this fiscal year they are 12.8% of those in the same period last year.

As a result, core operating profit decreased by 38.9% YoY to JPY9.7 billion, and both operating profit and net profit, all kinds of profit decreased.



Japan	-9.6% YoY: Excess channel inventory at end of FY2024, prior-FY Q1 front-loaded shipments of *Alesion* eyelid cream and product mix in *Alesion* products
China	-20.9% YoY (excl. FX impact -14.0%): Adjustments in channel inventory levels (*Cravit*, *Hyalein*) since H2 FY2024 and *Diquas* sales
Asia	-4.3% YoY (excl. FX impact +2.8%): Solid performance from glaucoma and dry eye products in Southeast Asia partially offset by increased competition in S. Korea glaucoma market
EMEA	-0.2% YoY (excl. FX impact +2.2%): Continued *Ikervis* growth contribution. New glaucoma products off to solid start with other products in-line with expectations

5

*Sales classified into countries or regions based on customer's location. EMEA: Europe, Middle East and Africa. Hong Kong is included in China.

On page five, the factors for increase/decrease in sales profit.

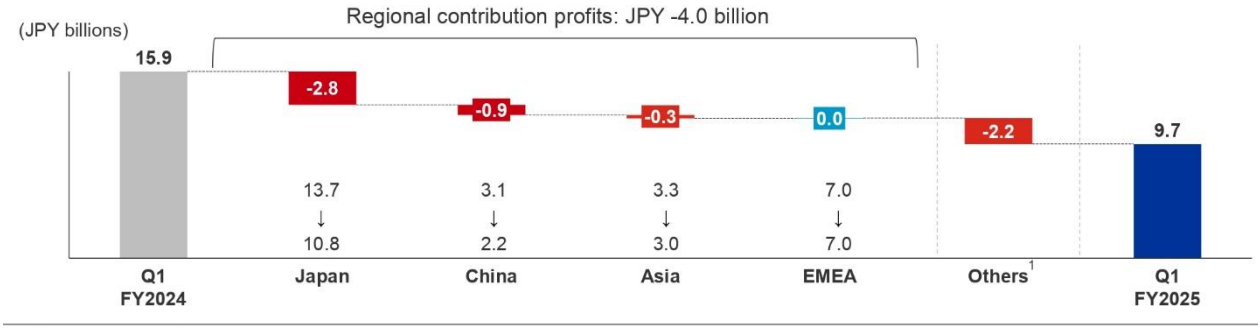
The JPY68.7 billion is broken down into 54% in Japan and 46% in China, Asia, and EMEA.

In Japan, revenue decreased by 9.6% YoY. This was mainly due to a temporary increase in channel inventory of *Alesion* at the end of the previous fiscal year due to heavy pollen dispersal, which resulted in a rebound decline in April, a gap between normalized shipments in this fiscal year and initial larger shipments at the launch of *Alesion* Cream in the previous fiscal year, and the penetration of *Alesion* AG, our own authorized generic drug which.

RYJUSEA Mini, which was launched in April, has made, whilst still limited, a contribution to sales of JPY150 million kicking off in-line with our expectations.

Overseas, the channel inventory adjustment in China that began in H2 of the previous fiscal year has been somewhat protracted and has had an impact on *CRAVIT* and *Hyalein*, as well as a temporary increase in sales of *Diquas* in Q1 of the previous fiscal year due to the rebound from the VBP impact, and this year, that factor has resulted in a decrease. As for Asia, sales in Southeast Asia remained strong, but sales in South Korea declined, resulting in a 6% decrease for the three regions as a whole. Sales in each region are as shown here.

Q1 FY2025 Core operation profit bridge



Regional contribution profits	Japan Impact from excess *Alesion*-related channel inventory at end of FY2024, reactionary effect of prior FY-Q1 front-loaded shipment of cream formulation and change in product mix of *Alesion* products partially offset by solid performance in other disease areas and controlled SG&A expenses Overseas (incl. FX) China: Decrease. Impact from adjustments in channel inventory levels (*Cravit*, *Hyalein*) and *Diquas* sales partially mitigated by appropriate control of SG&A expenses Asia: Secured contribution profit comparable to Q1 FY2024 excluding the FX impact EMEA: Secured Q1 FY2024 contribution profit level from steady sales growth
Others	R&D and other expenses increase

6

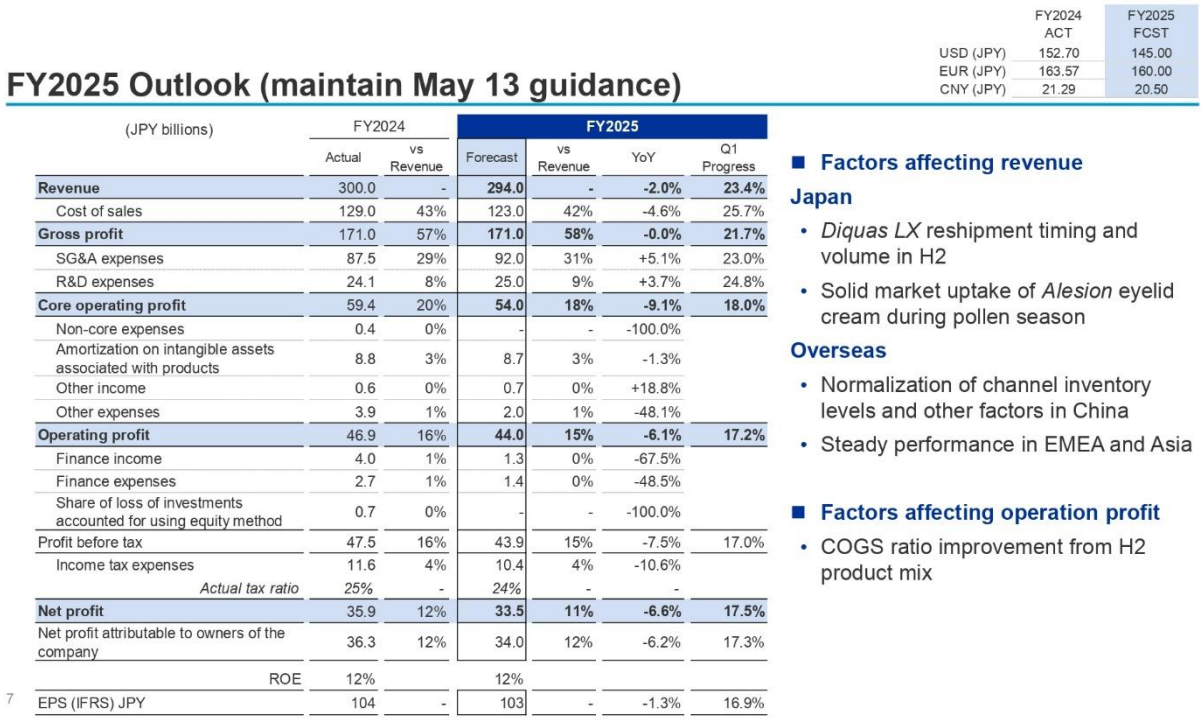
1 R&D and back-office expenses in region and global functions, and contribution profit not related to the regions above * Hong Kong is included in China.

Page six, factors of increase/decrease in core operating profit.

On a regional contribution profit basis, there was a decrease of JPY4.0 billion.

In Japan, profit decreased mainly due to lower sales of *Alesion* products; in China and Asia, profit decreased due to lower sales revenue; and in EMEA, contribution profit remained at the same level as the same period of the previous year.

As a result, the ratio of overseas to total on a contribution profit basis was 53%.



	FY2024 ACT	FY2025 FCST
USD (JPY)	152.70	145.00
EUR (JPY)	163.57	160.00
CNY (JPY)	21.29	20.50

FY2025 Outlook (maintain May 13 guidance)

(JPY billions)	FY2024		FY2025			
	Actual	vs Revenue	Forecast	vs Revenue	YoY	Q1 Progress
Revenue	300.0	-	**294.0**	-	**-2.0%**	**23.4%**
Cost of sales	129.0	43%	123.0	42%	-4.6%	25.7%
Gross profit	171.0	57%	**171.0**	**58%**	**-0.0%**	**21.7%**
SG&A expenses	87.5	29%	92.0	31%	+5.1%	23.0%
R&D expenses	24.1	8%	25.0	9%	+3.7%	24.8%
Core operating profit	59.4	20%	**54.0**	**18%**	**-9.1%**	**18.0%**
Non-core expenses	0.4	0%	-	-	-100.0%	
Amortization on intangible assets associated with products	8.8	3%	8.7	3%	-1.3%	
Other income	0.6	0%	0.7	0%	+18.8%	
Other expenses	3.9	1%	2.0	1%	-48.1%	
Operating profit	46.9	16%	**44.0**	**15%**	**-6.1%**	**17.2%**
Finance income	4.0	1%	1.3	0%	-67.5%	
Finance expenses	2.7	1%	1.4	0%	-48.5%	
Share of loss of investments accounted for using equity method	0.7	0%	-	-	-100.0%	
Profit before tax	47.5	16%	43.9	15%	-7.5%	17.0%
Income tax expenses	11.6	4%	10.4	4%	-10.6%	
Actual tax ratio	*25%*	-	*24%*	-	-	
Net profit	35.9	12%	**33.5**	**11%**	**-6.6%**	**17.5%**
Net profit attributable to owners of the company	36.3	12%	34.0	12%	-6.2%	17.3%
ROE	12%		12%			
EPS (IFRS) JPY	104	-	103	-	-1.3%	16.9%

■ Factors affecting revenue

Japan

- *Diquas LX* reshipment timing and volume in H2
- Solid market uptake of *Alesion* eyelid cream during pollen season

Overseas

- Normalization of channel inventory levels and other factors in China
- Steady performance in EMEA and Asia

■ Factors affecting operation profit

- COGS ratio improvement from H2 product mix

7

Next, on page seven, is the outlook for the full year.

Although the progress rate for Q1 appears low at first glance, there is no change from the May announcement because the trend is in line with our expectations.

As I mentioned at the outset, the drivers of sales and profit for this fiscal year are heavily weighted toward H2. On a core operating profit basis, the ratio is approximately 40 to 60, which differs from the trend of the past two years.

Revenue of JPY294.0 billion, core operating profit of JPY54.0 billion, EPS of JPY103, and dividend of JPY38. Although revenue and profit are down on a core basis, EPS will remain mostly unchanged, and the dividend will be increased by JPY2.

Factors affecting the full-year earnings forecast that we consider at this time are shown on the right side of the slide.

First, regarding Japan, here is the reshipment schedule for *Diquas LX* and the solid market uptake of *Alesion* Cream.

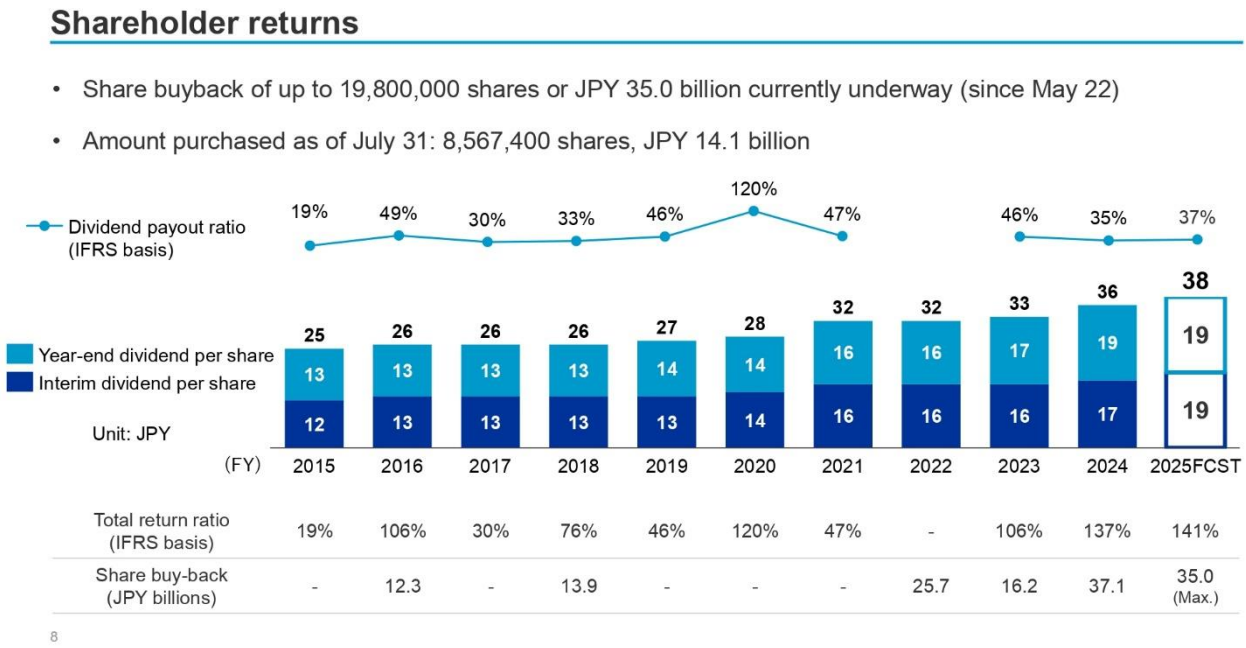
As for *Diquas LX*, we are continuing our efforts to deliver it to the medical practice as soon as possible and have resumed the production. We are currently studying the timing of shipments in H2 to ensure a stable supply and will announce the timing when it is finalized.

As for *Alesion*, we plan to further promote *Alesion* Cream during the pollen dispersal period this fiscal year as we did in the previous fiscal year.

The key to our overseas business is to eliminate channel inventories in China, and we are currently seeing signs that this is beginning to happen, and we believe that we will be able to do so in H2 of the fiscal year.

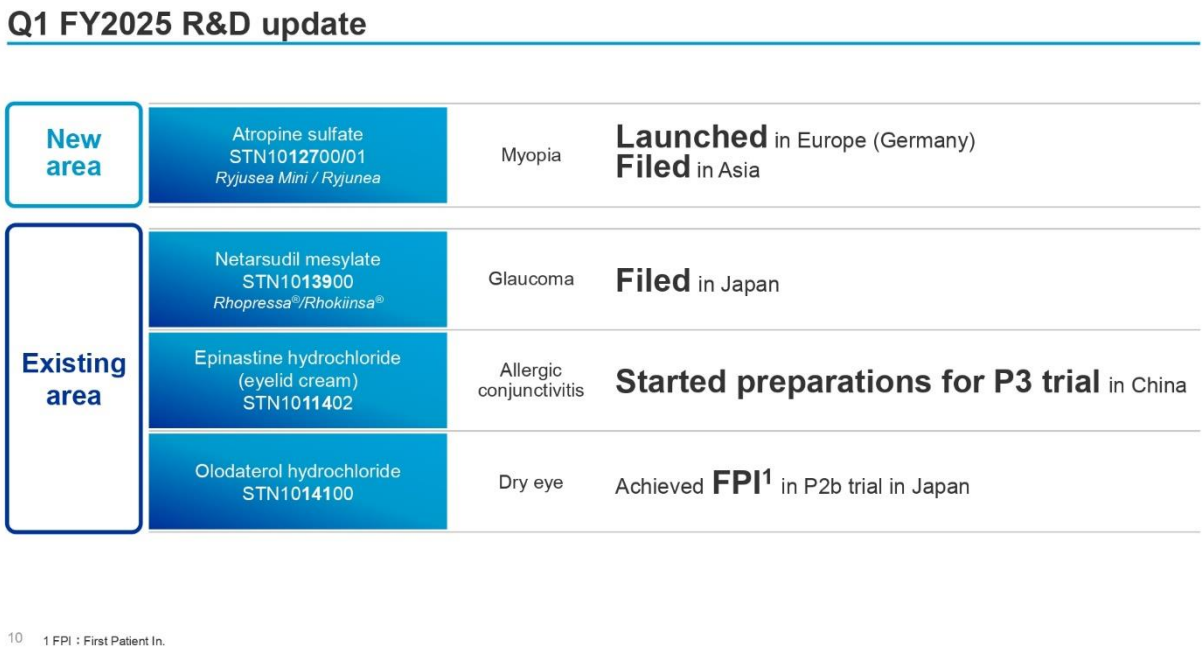
The cost to sales ratio was higher than expected in Q1 due to deterioration in the product mix but is expected to improve from Q3 onward.

SG&A expenses was the expected trend. Considering the weighted goal for H2 and the fluctuations factors I just mentioned, even if top-line figures such as revenue and gross profit affect upside or downside factors, we believe that we can control SG&A expenses as a buffer and secure the bottom line, profits. We believe that this resilience has improved compared to the previous period.



Page eight, as for the shareholder-related situation, at this point, we do not anticipate any changes, such as dividend increase, as P&L is on schedule.

Since May 22, we have been repurchasing up to JPY35.0 billion of our own shares, and as of the end of July, we had repurchased JPY14.1 billion of our own shares. The remaining JPY20.9 billion will be acquired by November 5, the end of the term. That concludes my explanation.



Sallstig: Good afternoon, I'm Peter Sallstig, Chief Medical Officer. Please allow me to provide you with an update with regards to status of the pipeline. Let's go to page 10.

In the myopia area, which is expected to drive medium to long term growth, steady progress is being made across several regions towards contributing globally.

For Atropine, project code 127, following Japan's launch in April under the brand name of *Ryjusea*, we were able to obtain European Commission approval in June and launch what is branded as *Ryjunea* in Germany in July with eight other launches across Europe to follow this fiscal year. Other countries are to follow next fiscal year onwards.

In the existing area, of our historical disease focus, we have filed in Japan for our ROCK inhibitor, project code 139, for glaucoma. In a P3 comparative study undertaken in Japan against latanoprost ophthalmic solution, 139 demonstrated additive efficacy in reducing intraocular pressure. Furthermore, a P3 comparative study undertaken in Japan against ripasudil eye drops demonstrated the superiority of 139 administered once daily compared to 0.4% ripasudil eye drops administered twice daily. 139 has demonstrated intraocular pressure-lowering effects both as monotherapy and in combination with other agents and is expected to contribute to glaucoma treatment as a new therapeutic option that addresses unmet medical needs. The once-daily administration is expected to contribute to improved patient adherence.

Additionally, although not mentioned in the slides, sepetaprost, project code 126, which also targets glaucoma, was recommended for approval as *Setaneo* in Japan at the Ministry of Health, Labour and Welfare's first committee on drugs on July 31. We expect it to be officially approved soon.

Alesion eyelid cream, which is administered once daily and already launched in Japan, is preparing for a P3 trial in China, with plans to start within this fiscal year.

Finally, for olodaterol hydrochloride, 141, which is anticipated as a next-generation dry eye treatment, we started a P2b trial in Japan. This concludes my part. Thank you.

Question & Answer

Sakuma [M]: Ms. Wakao from JPMorgan Securities, please go ahead.

Wakao [Q]: Yes, I'm Wakao from JPMorgan. Thank you. I thought that if Q1 was as planned, there would be no problem at this point, especially after Q2, so I thought that these comments were not particularly necessary, but since they were made, I was a little curious, so please elaborate.

With regard to Q1, is it correct to confirm that there was no shading from your company's plan, especially with regard to sales, and that the only variable factor after Q2, is the *Diquas LX*, and this is all that we can see?

Sakuma [M]: Thank you very much. Koshiji will answer your question.

Koshiji [A]: Yes, first of all, the most significant swing factor for fluctuations after Q2, is *Diquas LX*. In fact, sales of *Alesion* in Japan might affect the result, depending on pollen dispersal conditions. However, in our plans, we have already factored in the forecast with attention, so in that respect, it is as you understand. What is subject to our control, and which you should consider as acting slightly as a swing factor would be the reshipment timing of *Diquas LX*.

Wakao [Q]: In terms of Q1 sales, should we assume that they are all in-line with your company's plans?

Koshiji [A]: Yes, there are some individual product-variations, for example, *Alesion*, which is slightly below our budget. As a result, there has been a deterioration in the product mix, which has led to high-COGS ratios, but overall, we believe that sales and profits for Q1 are in line with our plans and budgets.

Wakao [Q]: Is the reason for the lower-than-expected *Alesion* sales is that the channel inventory was unexpectedly high in the previous year?

Koshiji [A]: Yes, in conclusion, yes.

Wakao [Q]: I understand. Thank you. The second is on *Diquas LX*, the swing factor, and I understand that you have started the production and they are being prepared, but what is the trigger that finally gives you the green light to ship it?

Kurihara [A]: I will answer your question. I think there are two points. First, I think it is whether we can reach an agreement with the authorities on the policy and direction of quality control that we are considering when we will restart shipments.

Regarding this matter, we are currently preparing based on the results of a consultation we had in May, but at this point, we have not yet reached the stage of final confirmation.

The other factor is inventory buildup. *Diquas LX* is a drug that has been widely used in the market, so when we resume shipments, we will need to build up a considerable amount of inventory before releasing it to the market. We are currently determining the final timing for this.

However, as Koshiji explained earlier, the current situation is that we have already resumed the production and are preparing to do so.

Wakao [Q]: I understand. There were some parts that were difficult to hear clearly, but according to your initial plan, I believe the reshipment was scheduled to start in October. Is it correct to understand that everything is proceeding smoothly toward that goal?

Kurihara [A]: Yes, we are not sure if we can say October at this point, but we are making good progress.

Wakao [Q]: I understand. So, even if the timing is in October or slightly delayed, it seems that there will be no particular problems with your plans for this fiscal year. Is that correct?

Kurihara [A]: Yes. Basically, in any case, whether is the shipments are released in October or November, it will be in limited volumes, as a function of our production.

Wakao [M]: I understand very well. Thank you. That's all from me.

Sakuma [M]: Thank you very much. Now, we will move on to the next question. Mr. Muraoka of Morgan Stanley Securities, please go ahead.

Muraoka [Q]: Thank you. This is Muraoka from Morgan Stanley. As for *RYJUSEA*, while I don't intend to engage in a conversation on what you said or did not say, at the end of May, when the mid-term plan was announced, I remember COO, Nakajima saying something similar to, “Depending on progress, it's possible that we may have a strong kick start”

However, the figure is only JPY150 million. Maybe it’s as planned, but I think it could have been a little more. I would like to know how I should interpret this JPY150 million. For example, was there a lot of patients on the waiting list, or were doctors not yet ready in the first two months. I would be very happy to have more color on this.

Kurihara [A]: Thank you. I would like to answer your question. As for *RYJUSEA*, I can't remember the exact background when Nakajima responded, but it has launched completely in line with our plan.

We believe that the most important thing is to have a system in place to ensure that patients receive proper treatment when they visit a medical institution because of the characteristics of the drug. In other words, since this is out-of-pocket, ophthalmologists need to make certain preparations before they can begin providing this treatment, so we are focusing our efforts on creating the necessary environment.

Therefore, rather than focusing on generating large sales at the initial stage, we are proceeding in a step-by-step manner, delivering our products to facilities that can introduce the products properly and then having them introduce the products to patients. The current situation is that we are completely on-track in that plan. Have I answered your question?

Muraoka [Q]: Thank you. Based on what Mr. Kurihara just said, it would be safer to assume sales in the next July to September period at, say, JPY300 million?

Kurihara [A]: Well, I don't have specific figures, but the current situation is that the number of clinics and hospitals adopting the product, to be more specific, has exceeded 2,000 and has been growing steadily for a long time. The same is true for sales, which have been growing at the same rate for the past several months, and I hope you will understand that this trend will continue in Q2.

Muraoka [Q]: I see. Thank you. The other question is about the buyback. I am a little concerned about tomorrow's stock price because of the poor optics (of the earnings results) at first glance.

I think some companies may be able to program buy-backs that allow for more shares to be bought back when there is selling pressure. Does your company have a mechanism to mitigate such effects or not? I know this is difficult to comment on, but I would be happy to learn a little bit about that.

Koshiji [A]: In conclusion, in relation to the change in the intervention rate, and the price (Santen post amendment: stock price), the program is designed to support the purchase to a certain extent.

Muraoka [M]: I understand. Thank you. That's all from me.

Sakuma [M]: Thank you very much, Mr. Muraoka. We will move on to the next question. Mr. Yamaguchi of Citigroup Global Markets, could you please go ahead?

Yamaguchi [Q]: It's been a while since I've had a conference call, so I'm a little nervous. Thank you.

I have a few additional questions about *RYJUSEA*. When I calculate backwards from the unit price, I can see something like 10,000 people using the product. I was wondering if you could tell me the number of patients using the products, if you know.

You mentioned 2,000 institutions, but I think there are various patterns within those 2,000 cases, such as people who use clinic-dispensing eye drop switching to this, the product from Singapore is switched to this, or people who are completely new patients.

I am sure there are many aspects that we don't know, but please give us some more additional information about the market penetration status, or what they are like, including the number of patients.

Kurihara [A]: Thank you. As for the number of patients, we are still in the early stages of the market launch, and we do not have all the information on the market, etc., so I am afraid I cannot give you an accurate answer.

Regarding the significance of the 2,000 institutions, we hope you will understand that it means that our product has been adopted by approximately one-quarter of the facilities (Santen post amendment: ophthalmology facilities).

Among them, there are naturally facilities that were already using *Myopin* or self-dispensing medication for myopia progression control treatment, but in terms of percentage, there are actually more facilities that were not using such treatments.

I personally thought that it would start with such facilities, but as it turns out, other facilities are also interested in the product and are using it for their treatment.

Conversely, in institutions where prioritize *Myopin*, some of them have purchased large quantities in stock, so the balance is like that. The market situation is such that facilities already using *Myopin* will gradually switch over to our product.

Yamaguchi [Q]: I see. If so, are there any targets you can disclose for how much you would like to grow these 2,000 institutions within the fiscal year? If you are planning to focus on these 2,000 institutions, or, you mentioned penetrated into a quarter of your target institutions, how do you see that?

Kurihara [A]: Naturally, we are not satisfied with this situation, so we are making the assumption that more and more will be added.

Yamaguchi [Q]: I see. Thank you. One more, briefly, is about *Alesion*. In the end of previous fiscal year, even you didn’t intend to do it, I think that you pushed too much out.

In the case of pollen, there are inevitably bumps, but how is the adjustment, including cream, from the end of the last quarter to the current quarter? You put it out a little, but it wasn't used as much as you expected. That kind of thing always happens in that area, but how did you handle adjustments in that regard? *Alesion* and *Alesion* Cream.

Kurihara [A]: One of the key characteristics of last season was that the peak came at the very end of March. To be specific, it wasn’t considered a particularly late pollen season, but every time we expected the pollen

to start flying, it was followed by rain or snow, repeatedly. As a result, the peak ended up being delayed until late March.
Naturally, when the season reaches its peak, wholesalers tend to have a strong desire to hold inventory, so they stocked up accordingly. Although there was still some residual demand in April, the market shrank abruptly.
We, of course, made strong efforts to keep inventory levels low. However, due to the seasonal characteristics I just described, there was a strong sentiment to hold inventory, and as a result, we entered the off-season still holding stock levels that were meant to withstand the peak of the season.

Yamaguchi [M]: I see, thank you very much. That's all from me.

Sakuma [M]: Thank you very much, Mr. Yamaguchi. Then I would like to move on to the next question. Mr. Hashiguchi of Daiwa Securities, please go ahead.

Hashiguchi [Q]: I'm Hashiguchi. Thank you. The first is the question about a comparison of plan for *Alesion*. Are there any differences between your expectations and actual results, such as a significant reaction to excess inventory due to differences in formulations?

Then, in Mr. Koshiji's explanation, you mentioned AG, but as of last year, or rather, as of the previous term, I believe the product was switched to AG in the large amount, so I don't think that would be a factor contributing to the difference from the forecast. Is that understanding correct?

Koshiji [A]: I am not sure if my explanation was a bit misleading regarding the AG part first, so I will answer.

Regarding the AG version of *Alesion* LX, it was not available in the first quarter of last year. The decline in this year's first quarter is due to the AG version significantly exceeding our budget expectations. As a result, sales of *Alesion* Cream and the original *Alesion LX* fell short of our initial projections.
Although the impact on gross margin was only a few percentage points, the higher-than-expected sales of the AG version contributed to an increase in the COGS ratio.
I apologize for the earlier unclear explanation.

As for the entire *Alesion*, then, please continue.

Kurihara [A]: First of all, regarding the impact of inventory, there are differences by product. This is also a result, or the formulation characteristics. One is because, as just explained by Koshiji, the switch from LX to AG was beyond our expectations. As a result, demand for LX, the original product, is lower than expected, so in terms of inventory, judging solely on that level, we have more than expected.

The same is true for cream, which I think has a relatively large impact on the market. As for the cream, it will be a formulation in great demand for patients with strong seasonal effects and symptoms.

Since we will enter the off-season with inventory that can meet demand during the season, I think that *Alesion* Cream will be the product largely affected by inventory among the 3 products.

Hashiguchi [Q]: I understand very well. Thank you. Secondly, I too would like to know about the status of *RYJUSEA*.

Is it correct to understand that the sales of JPY150 million do not include much inventory accumulation at pharmacies, etc., and that sales will be higher in Q2? Earlier, I thought it was a great story that medical institutions are getting ready to start this kind of treatment where they have not done it before, but is the movement on the part of patients changing?

I believe that to some extent there have been patients who have visited medical institutions to receive this type of treatment, but I would like to know if there are any signs that the number of such patients is increasing with the introduction of drugs such as *RYJUSEA*.

Kurihara [A]: Thank you. Regarding your first question, we do not generate sales by stockpiling inventory, so I believe it is acceptable to review the figures based on that assumption. As I answered earlier in another question, our priority right now is really to create a therapeutic environment, so the current situation is that the sales figures are not based on such factors.

Secondly, I feel that the movement of patients is changing. Nationwide, there are reports, we are hearing to some extent, that patients are visiting medical institutions to ask if they prescribe *RYJUSEA*. Furthermore, it is not only in the cities, but also in the other regions that such patient behavior exists.

When patients come to the hospital, the medical institutions also become more enthusiastic how they work, and I think this also gives them a boost. May and June are the season for eye examinations, and I think this is the reason why patients are making such inquiries to medical institutions.

Hashiguchi [M]: I understand. Thank you. That's all from me.

Sakuma [M]: Thank you very much, Mr. Hashiguchi. Next, Mr. Ueda from Goldman Sachs, could you please go ahead?

Ueda [Q]: This is Ueda from Goldman Sachs. The first question I would like to ask is the progress of gross margin. It was quite low in this quarter, and although you mentioned about a recovery in the future, looking at the current fiscal year as full year, there is a tendency toward improvement compared to the same period last year, but Q1 was quite low. I know it depends on *Alesion* sales in Q4, but are there any major risks to achieving this company forecast?

You mentioned that there will be improvement, especially from Q3 onward, but I am not sure if there is anything else besides *Diquas LX*, *Alesion*, and other products that will contribute to a particularly large improvement. Could you please elaborate on this background and tell us?

Koshiji [A]: Yes, first of all, gross margin and COGS ratio. In terms of gross profit margin for Q1, this was actually worse than expected. It was about 1% (Santen post amendment: 1 percentage point) worse than we expected. The main cause of that is the sales of *Alesion* as I mentioned earlier.

I mentioned that from H2, from Q3 onward, the result will improve, but first let me talk about the drivers, as you pointed out earlier, *Alesion*, *Diquas*, and in addition to that, China. These are older products, *CRAVIT* and *Hyalein*, and China is the region where their COGS ratios are low from a global perspective, so an increase in China ratio in the consolidated results will have a positive effect on the COGS ratio. We believe that these three are the main drivers.

So the final result is a COGS ratio of 42% for the full year and a gross margin of 58%. In Q2 and Q3, the cost of sales and gross profits will be the same as last year, and in Q4 the COGS ratio will improve significantly. Specifically, our current scenario is to assume a COGS ratio of about 37% in Q4 QTD.

Ueda [Q]: I understand. Thank you. Secondly, I would like to ask about the situation regarding the switch to cream within the *Alesion* franchise.

Looking at the sales figures for this quarter, I think the ratio of cream products is quite high compared to the previous quarter, considering that you have provided a breakdown by product category and that you mentioned earlier that cream products were relatively abundant in distribution inventory.

Currently, are the trends toward switching in the end markets steadily increasing toward this fiscal year's plan? If you could include your assessment of the cream at medical practice, that would be helpful. Thank you.

Kurihara [A]: Thank you. The current season is not really the best time to evaluate the cream, so it is difficult to comment on the current situation of switching at this point. The reason is, as I mentioned earlier, that demand for this product is high when symptoms are severe, so I hope you understand.

In evaluating, or rather reviewing, last year's season, we were able to confirm that product won very high product evaluation. Since it is a new product, we were concerned about the efficacy and safety when it was actually used by patients with strong symptoms during that season. We are relieved to confirm that the evaluation there is high.

For the next season, we intend to further extend the value of such products.

Ueda [M]: I understand. Thank you. That's all from me.

Sakuma [M]: Thank you very much, Mr. Ueda. Then, next, Mr. Sakai of UBS Securities, could you please go ahead?

Sakai [Q]: Yes, since I can ask two questions. One is about *EYLEA*. I believe that the price of 2 mg medication has been reduced since April due to the return for the Price Maintenance Premium.

I've been hearing for some time about the switch to high-dose products, but I'm not sure if Q1 sales are better than expected. I don't think it will have a positive impact on the cost of sales, which is probably what everyone has been talking about, and but it's better to sell than not to sell at all. Can you tell us a little bit about the situation around it? If possible, please also let me know what percentage of high-dose products are contributing to sales in Q1.

Kurihara [A]: Yes, first of all, what is happening to *EYLEA* is that it has been subject to repricing for market expansion since this August, and the NHI price is falling. However, this past May, we launched a new dosage form of *EYLEA*, a prefilled syringe, in an 8 mg formulation. The 8 mg prefilled syringe underwent repricing for market expansion in advance from its release timing in May.

We frankly did not anticipate that. The price of 8 mg prefilled syringe is lower than the original price, which works as a negative factor for this Q1's performance.

On the other hand, as expected, these are expensive drugs, the 8 mg dose was more expensive, and between May and July, there was a temporary narrowing of the price difference between the 2 mg and 8 mg doses. In this sense, it was an environment that made it easy for doctors to use this 8mg prefilled syringe.

This in itself is positive in terms of market penetration for 8mg, and we have actually seen an increase in market share during this period.

I am sorry, but I would like to refrain from discussing the breakdown of 8mg, etc.

Sakai [Q]: So you are saying that the price of the 8mg prefilled will also go down starting in August?

Kurihara [A]: No, not just *EYLEA*, but almost all anti-VEGF drugs. The drug prices for all of these drugs have been subject to repricing for market expansion since August, but the prices for prefilled syringes have been lowered ahead of schedule, starting around May 20, the release date. This does not mean that it will fall further in terms of the prefilled. So it is being applied ahead of schedule.

Sakai [Q]: I see. Then, is it correct to say that the reason why sales in Q1 appeared to be relatively strong is because, as Mr. Kurihara said now, for eye doctors, the 8mg is easier to use, and the volume increased?

Kurihara [A]: Yes, that's right. In terms of generating sales, the earlier-than-planned price reduction was not good news, but in terms of creating an environment conducive to the use of 8 mg, and in terms of switching from 2 mg to 8 mg, it had a positive effect.

Sakai [Q]: In other words, I am sorry to be persistent, but is it correct that there will be no change in NHI prices in the future?

Kurihara [A]: No. You're right.

Sakai [Q]: After August.

Kurihara [A]: No, we do not plan that.

Sakai [Q]: The other VEGF inhibitors will be applied, so the competitive conditions are the same in terms of drug prices.

Kurihara [A]: Yes, other drugs are also undergoing repricing for market expansion.

Sakai [Q]: I understand. Thank you. Also, the situation in China. If sales in China increase, you estimate it will have a positive effect on cost of sales, if I understand correctly. I heard that inventory compression was underway in China as of Q4, and the reason given was that inventory compression could be achieved by changing wholesale and distribution channels, which I thought was a positive development in a sense.

On the other hand, in China, demand for what used to be called LASIK, as well as cataract surgery, is said to peak in July, but these fundamentals have remained very weak for some time. This may not directly affect your company's business in China, but I wonder if it has an indirect impact, including inventory adjustments and compression. Please tell us how you perceive this situation.

In other words, has China's inventory compression, or inventory adjustment, ended in Q2, and beyond? That is my question.

Koshiji [A]: First of all, in terms of the macro environment, we do not see any deterioration in the fundamentals, especially with regard to *Hyalein* and *CRAVIT*, which are highly relevant to surgery. In this respect, we are aiming for double-digit growth in China in our medium-term management plan, but we have yet to change our view.

As for inventory due to changes in distribution channels, first of all, our 2 products, *Hyalein* and *CRAVIT*, were affected by VBP, and we have adopted a strategy of reducing resources for products affected by VBP and outsourcing them to wholesalers.

As a result, the control over wholesalers and inventory between wholesalers and medical institutions has shifted slightly more negatively than we had anticipated, requiring more time to resolve. This is the mechanism behind the current inventory issue.

Although it has been prolonged, Q1 has been affected, and there is still a little left in Q2. We expect that the situation will improve in Q3 and H2.

Therefore, we are still concerned, or rather assuming, that China will remain slightly weak in Q2. We have incorporated this into our plans. That's all from me.

Sakai [Q]: Is it correct to understand that China's influence is factored into the recovery of performance, which is focusing on H2?

Koshiji [A]: Yes, you are absolutely correct. In that respect, the figures disclosed separately for *CRAVIT* and *Hyalein*, which are the main products in China, as I mentioned earlier, are on-track.

Sakai [M]: I understand. Thank you.

Sakuma [M]: Thank you very much, Mr. Sakai. Mr. Wakao of JPMorgan Securities, could you please go ahead?

Wakao [Q]: Thank you very much. Please tell us additional information. First, R&D expenses for Q1 appear to be progressing at a relatively high rate compared to the previous year. How should we interpret this compared to the previous year?

Koshiji [A]: Koshiji will answer the question. In that regard, the main factors are the increase in the number of clinical development trials and the medical affairs-related expenses. In that sense, it is increasing, but we consider it to be a positive expenditure.

Wakao [Q]: What are medical affairs related to?

Koshiji [A]: Yes, this is for new products, mainly for myopia and glaucoma, and activities to maximize the sales upon their launch. In addition, some parts that were to be recorded in Q2, have been brought forward.

Sallstig [A]: As Mr. Koshiji explained, there are two points. One is that clinical trials, particularly Phase III trials, the late stage, are accelerated and progressing very well, which is excellent news for us, as it will enable us to accelerate filing. And I believe this is necessary because it allows us to get the needed drugs to the patients as soon as possible.

And the second is medical affairs-related expenses. These are related to the launch of *RYJUSEA*, *Ryjunea*, and the ongoing expansion of *Catiolanze*, and although related expenses have been incurred, we view these as positive developments. That's all from me.

Wakao [Q]: Thank you very much. Sorry, just one more thing, about *RYJUSEA*. What is the current situation, how do you think, and what is the reaction of the patients regarding the fact that they are paying for the cost of the treatment by themselves, since it is out-of-pocket?

After a consultation, I think I was told that a patient would receive a prescription within a week to a month, so I think they have to go again, but isn’t that a hurdle for them?

Kurihara [A]: Thank you. I don't have much to say about the overall response of patients yet, I don't have a clear picture of the overall response of patients yet. Of course, there are concerns about the cost being a little high or the financial burden, especially among doctors. We have also received reports of cases where patients hesitate to undergo treatment because they feel that the cost is a little high, even when referred to by their doctor.

However, since this was a situation that we had anticipated to some extent, we have not received any responses that exceed our expectations, but we have certainly heard such comments.

Wakao [Q]: Isn't it difficult for patients to have to go back again so soon after their first prescription?

Kurihara [A]: Yes, we have not received any specific reports on that timing issue, or on the issue of one more time.

Wakao [M]: I understand very well. Thank you.

Sakuma [M]: Excuse me, the end time is approaching, so I would like to ask one last question from Mr. Tanaka of Mizuho Securities.

Tanaka [Q]: One thing about RYJUSEA, I believe the number of facilities will continue to grow, of course, but I recall your company once mentioned that once it reaches a certain level, a domino effect would likely occur at some point. Is that correct?

What kind of time frame do you think that will happen, and will it happen by the end of this fiscal year, or do you think it will happen subject to "*sentei ryoyo*" (Santen post amendment: Now, patients are required to bear all costs related to myopia treatment, including examination fees, out of pocket in Japan. If myopia treatment adopts *sentei ryoyo*, examination fees will be reimbursed by national healthcare insurance.) or something like that? Please tell us a little bit about that.

Kurihara [A]: Yes, it is difficult to say when the domino effect will begin, although it may have already begun. As part of our original plan, we are planning to implement communications, what is known as DTC, aimed at consumers and patients.

The plan itself is scheduled to start in earnest in FY2026, so rather than this fiscal year, we are planning to focus on the domino effect at full scale, so to speak, in the next fiscal year and beyond.

Also, with regard to *sentei ryoyo*, if there is a possibility, it would be from April of 2026, so we are expecting such an effect as well.

Tanaka [Q]: Since the target patients are mostly elementary school students, it means that there will come a time when everyone starts having the treatment in such communities, right?

Kurihara [A]: Yes, I think there are two meanings. First, what we are currently working on is a kind of domino effect in the field of ophthalmology. If other ophthalmologists nearby are working on the treatment, it is only natural that they feel they should do the same. Beyond just observing the situation, there are cases where it becomes standard treatment in ophthalmology. This is what happens first.

Another point is that, as you mentioned, parents in the same class at the same school start talking that they are receiving the same treatment.

Tanaka [M]: I understand. Thank you.

Sakuma [M]: Thank you very much, everyone. With that, I would like to conclude today's briefing. Thank you very much.

[END]