



# **Acquisition of Merck's Ophthalmic Assets**

**May 14, 2014  
President & CEO  
Akira Kurokawa**

# Strategic Rationale (1/2)

- Transaction as part of Santen's Long-term Business strategy to realize the goal of "Specialized pharmaceutical company with a global presence"
- To expand our global presence in the ophthalmologic field, and realize sustainable profit growth.



# Strategic Rationale (2/2)

## ■ Strengthen ophthalmology prescription business in Japan

- Solidifies Japan's glaucoma franchise
- Full ownership of COSOPT improves profitability

## ■ Develop platform and accelerate overseas growth

- Europe: Strengthen existing business platform, expand sales network, and enhance access to new markets including major western European countries\*
- Asia: Accelerate entry into ASEAN markets, and strengthen business platform with expanded product lineup

## ■ Harvest synergy for future growth

- Establish business platform for future launches of Santen pipeline products

# Outline of the transaction

## As of May 13, Santen has agreed to purchase Merck's ophthalmology products

### Purchase price:

Approximately \$600 million (upfront payment)  
Potential contingency payments if future sales is above certain agreed baseline

### Products:

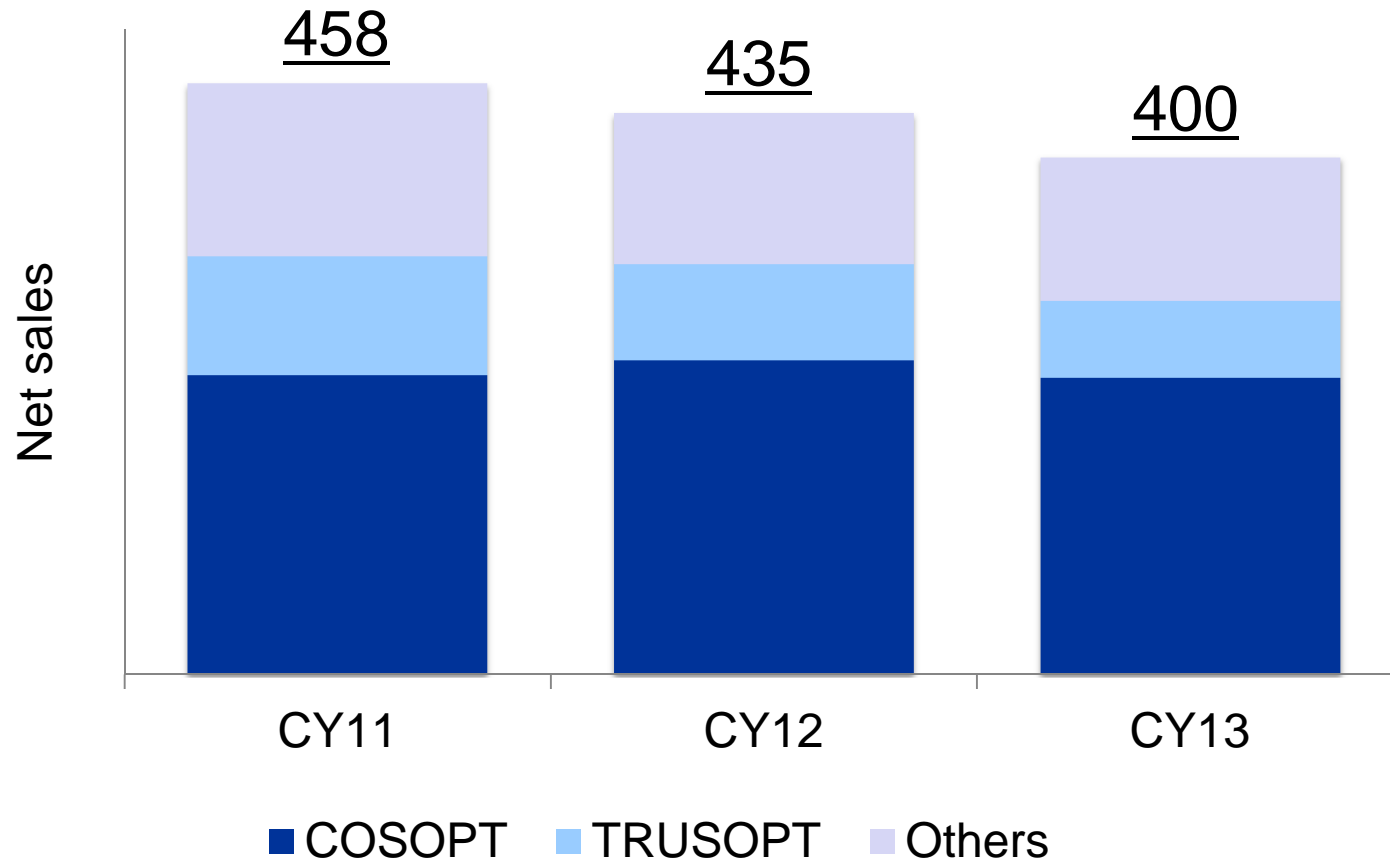
COSOPT, COSOPT PF, TRUSOPT, TRUSOPT PF,  
TIMOPTIC, TIMOPTIC-XE, TIMOPTIC PF, TAPTIQOM,  
SAFLUTAN (Tafluprost in Europe)

### Regions (including new markets) :

Japan	
Asia (Korea, Thailand, Taiwan, etc.)	15 countries (4 countries)
Europe (France, Italy, UK, Spain)	56 countries (33 countries)
<hr/>	
Total	72 countries (37 countries)

# Target assets (Products)

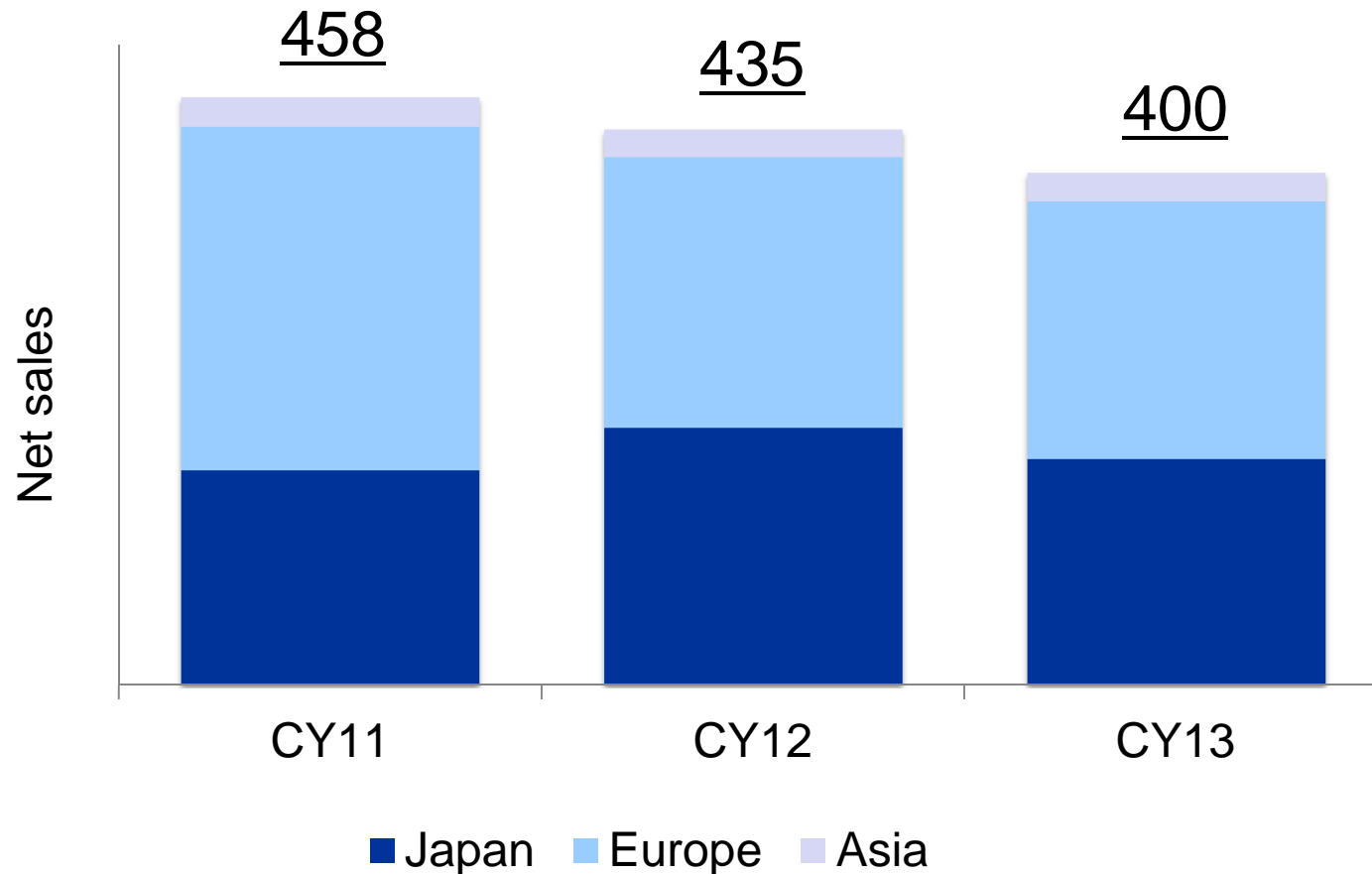
Unit: mil. USD



\* "COSOPT" includes the sales of co-promotion with Santen in Japan and therefore already recorded as Santen sales

# Target assets (Regions)

Unit: mil. USD



\*Sales in Japan include the sales of COSOPT co-promoted with Santen

# Medium-term impact

Unit: JPY Billion

	<b>FY17</b>
Estimated Sales Impact	App. 15.5~18.5
Estimated EBITDA Impact	App. 9.5~12.5
Estimated EBIT Impact	App. 4.0~7.0

- \* Sales figures do not include the sales of COSOPT co-promoted with Santen in Japan
- \* Estimates may change in the future. Details to be disclosed separately

# Sales forecast by region

Unit: JPY Billion

		FY17
Estimated Sales		App.15.5~18.5
	Japan	App.3.0~3.5
	Asia	App.2.0~2.5
	Europe	App.11.0~12.5

- \* Sales figures do not include the sales of COSOPT co-promoted with Santen in Japan
- \* Forecasted figures are estimations which may change in the future. Details to be disclosed separately



# Financial impact

- Both GAAP EPS (after depreciation of intangible fixed assets), Cash EPS (before depreciation of intangible fixed assets) expected to increase from FY14
- Acquired assets to be accounted as intangible fixed assets and depreciated straight line over 12 years (tentative)
- Detailed sales forecast and financial impact will be presented subsequently

# Strengthen global presence

## <2013 total ophthalmic sales ranking>

Unit: mil. USD

Before acquisition			After acquisition		
No.1	Company A	7,445	No.1	Company A	7,445
No.2	Company B	3,319	No.2	Company B	3,319
No.3	Company C	1,799	No.3	Company C	1,799
No.4	Company D	1,347	No.4	Company D	1,347
<b>No.5</b>	<b>Santen</b>	<b>876</b>	<b>No.5</b>	<b>Santen</b>	<b>1,253</b>
No.6	Company E	742	No.6	Company E	742
<b>No.7</b>	<b>Merck</b>	<b>534</b>	No.7	Company F	510
		<small>(377 target asset)</small>	No.8	Company G	344
No.8	Company F	510			



\*Sales of Merck in Japan include the sales of COSOPT co-promoted with Santen

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# Strengthen regional presence

<2013 glaucoma sales ranking: Japan·Europe·Asia>

Unit: mil. USD

Before acquisition				After acquisition			
No.1	Company A		709	No.1	Company A		709
No.2	Company B		483	No.2	<b>Santen</b>		<b>551</b>
<b>No.3</b>	<b>Merck</b>		<b>377</b>	No.3	Company B		483
No.4	Company D		376	No.4	Company C		376
<b>No.5</b>	<b>Santen</b>		<b>174</b>	No.5	Company D		121
No.6	Company D		121	No.6	Company E		39
No.7	Company E		39	No.7	Company F		38
No.8	Company F		38	No.8	Company G		32



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# Solidity Japan top market share

<2013 glaucoma sales ranking: Japan only>

Unit: mil. USD

Before acquisition				After acquisition			
<b>No.1</b>	<b>Santen</b>	<b>236</b>	<b>28%</b>	<b>No.1</b>	<b>Santen</b>	<b>278</b>	<b>33%</b>
No.2	Company A	166	20%	No.2	Company A	166	20%
No.3	Company B	164	20%	No.3	Company B	164	20%
No.4	Company C	121	14%	No.4	Company C	121	14%
<b>No.5</b>	<b>MSD</b> JPN subsidiary of Merck	<b>42</b>	<b>5%</b>	No.5	Company D	28	3%
No.6	Company D	28	3%	No.6	Company E	21	3%
No.7	Company E	21	3%	No.7	Company F	12	1%
No.8	Company F	12	1%	No.8	Company G	11	1%



\*Sales of Santen in Japan include the sales of COSOPT co-promoted with MSD

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# Timeline

1. Agreement signed: May 13th, 2014
  2. Closing: Japan (target 1<sup>st</sup> half, FY14);  
Other territories (ASAP but closing timing may vary depending on jurisdictions)
  3. Financial Contribution: Sales contribution depends on speed of transition from Merck to Santen, however profit will be transferred upon closing
- Conditions to closing include antitrust clearances and execution of certain ancillary agreements
  - In principle no assumption of employees unless otherwise required by local labor regulations

# Financing the transaction

Unit: JPY Billion

Use of cash		Financing	
Upfront payment (TBD*)	App. 61.8	Bank debt (TBD*)	App. 40.0
		Internal cash (tentative)	App. 21.8
Total	App. 61.8	Total	App. 61.8

\*The amount of money mentioned above may vary depending on development of negotiations with banking institution and currency rate at the completion of a transaction (an assumed currency rate as calculated above: \$1=¥103)

# Forward-Looking Statements

- Information given in this announcement and accompanying documentation 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.