

# Q3 FY2020 Results Follow-up

-Outlook for Chinese Business and Future Strategy-

Presentation / Q&A

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# 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 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 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.

# CORE PRINCIPLE and WORLD VISION

## CORE PRINCIPLE

天機に参与する

*Tenki ni sanyo suru*

“Exploring the secrets and mechanisms of nature in order to contribute to people’s health” \*

## WORLD VISION

**Happiness with Vision**

The Happiest Life for every individual, through the Best Vision Experience

\* Santen’s original interpretation of a passage from the Zhongyong (The Doctrine of the Mean) by Confucius.

# China and Asia Business Strategy

Leveraging Santen's Unique Strength

## Accelerating growth in China and Asia

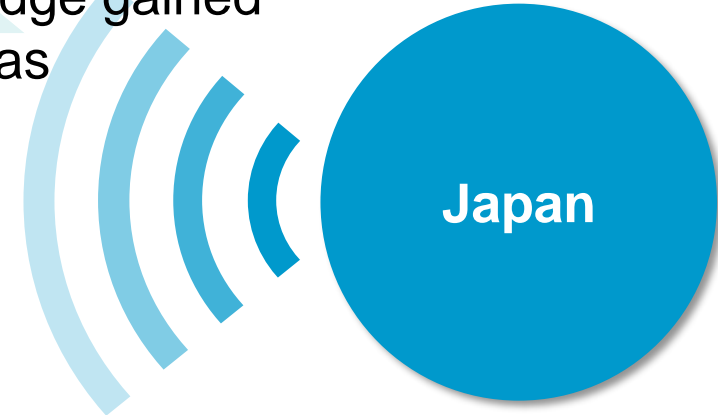
Supported by experience and knowledge gained in Japan, EMEA and Americas



- Global Influencer
  - Collaborate with academia and KOLs\*1
  - Regulatory understanding / skill
  - Significant human resources
- Growing presence in recent years



- High growth market
- High organizational capability
- Sales and manufacturing network



- Business model and know-how based on high market share
- Manufacturing, quality assurance capability
- Dominant #1 position in market

\*1:Key Opinion Leaders

# Agenda



- 1. Short-Term Impact from Value-Based Purchasing and Countermeasures**
- 2. Growth Potential in China Market**
- 3. Initiatives for Sustainable Growth**

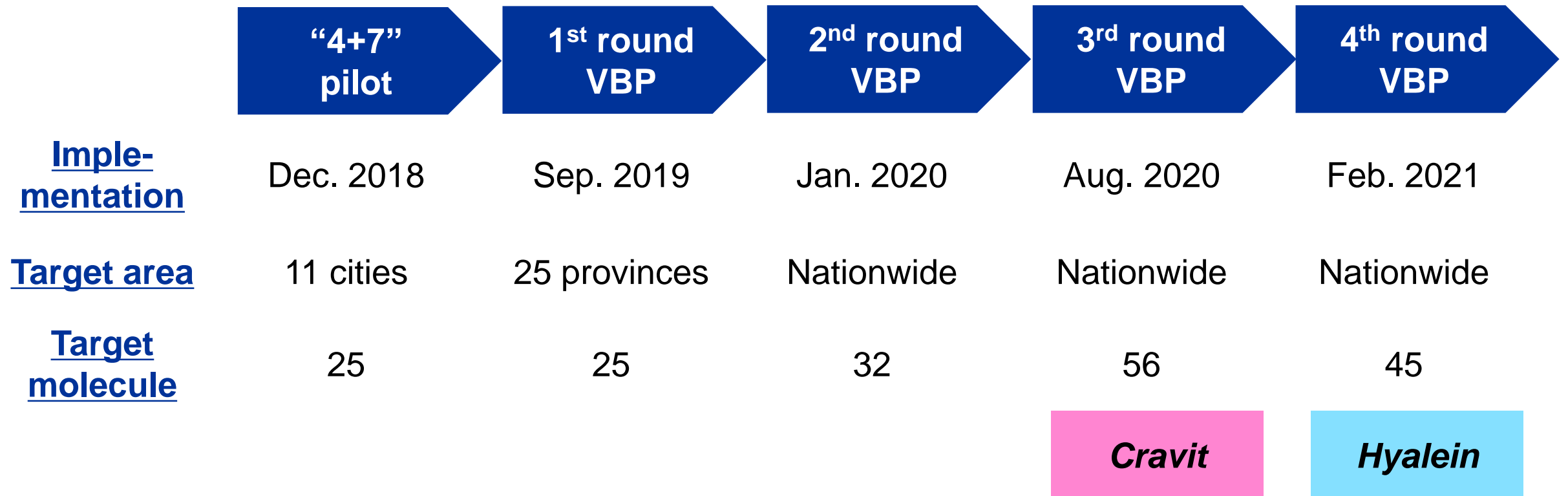
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# Short-Term Impact from Value-Based Purchasing and Countermeasures

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# VBP\*1 (Value-Based Purchasing)

Implemented for top compounds that account for the majority of medical costs. Starting with antibacterials, antihypertensives; the prices are reduced by about 70-80% on average. Generic products that pass the BE test\*2 can be bid

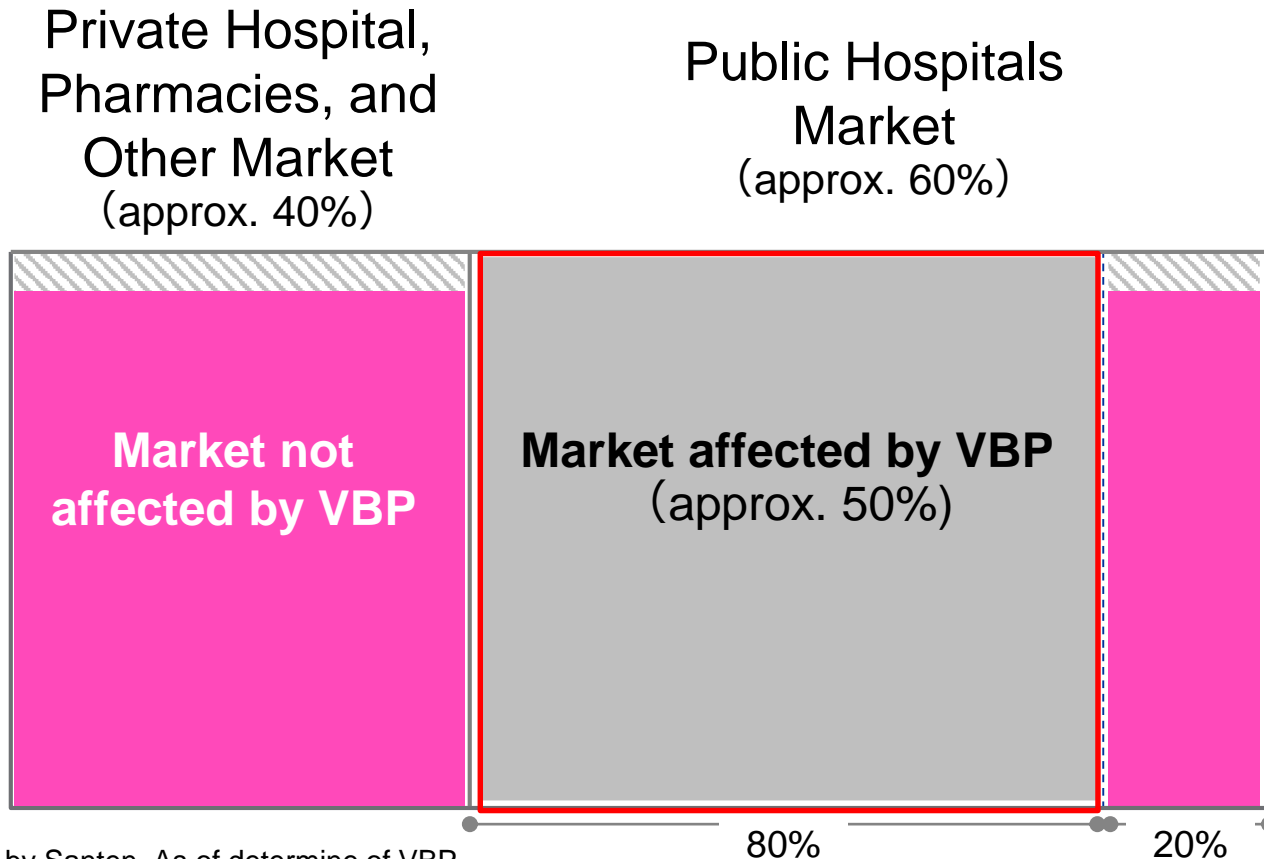


\*1: Value-Based Purchasing: Government assurances on purchase volume for the successful bidders. \*2: Bioequivalence test

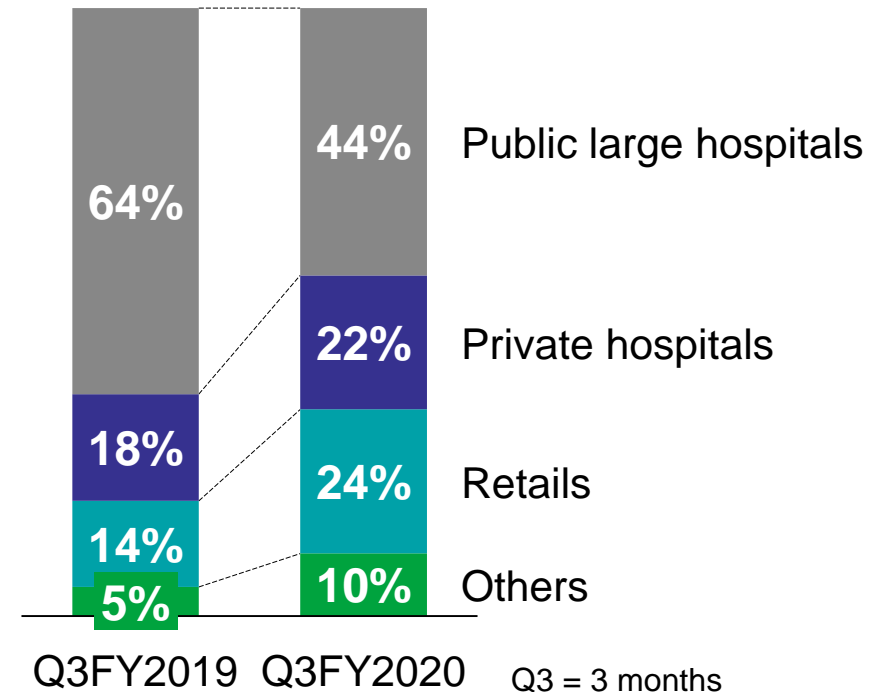
# VBP Impact on *Cravit*

Markets targeted by VBP have seen a further shift to generics. In response, Santen are elevating our focus on expanding sales at private hospitals and pharmacies.

## Market structure of levofloxacin 0.5% (volume basis)\*1



## Cravit sales by channel (volume basis)



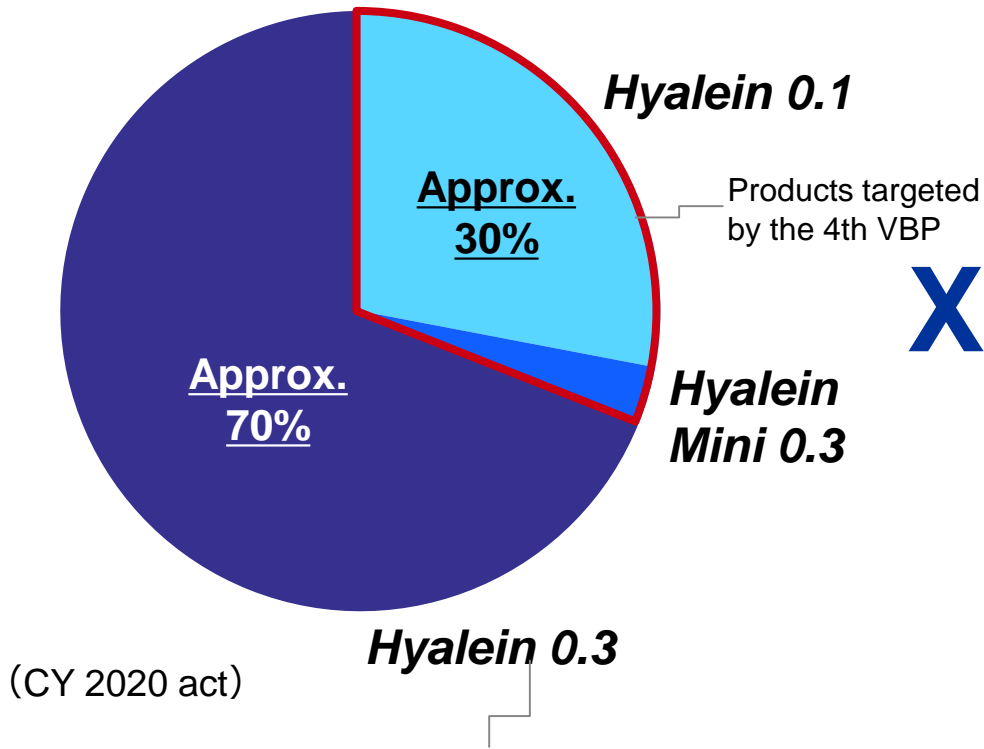
\*1: Estimated by Santen. As of determine of VBP.



# Hyalein Partially Subjects to the 4<sup>th</sup> VBP

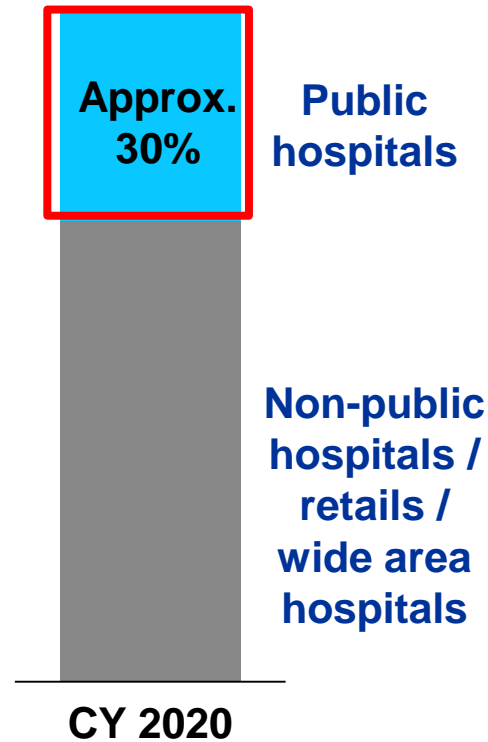
Limited impact expected on financial results in FY2021 and beyond

Hyalein sales by product  
(Value)

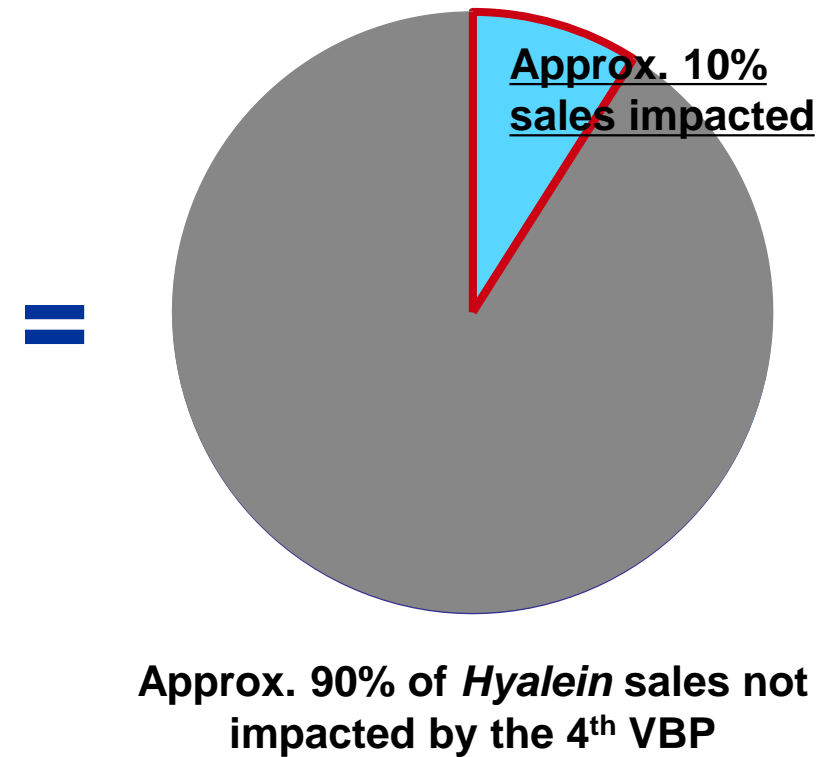


Excluded from VBP because no GE in the market at present. Risk of being listed in the future.

Hyalein 0.1 sales by channel  
(Value)<sup>\*1</sup>



Hyalein sales impacted by the 4<sup>th</sup> VBP (Value)<sup>\*1</sup>



\*1 : Estimated by Santen. As of when VBP was conducted.

# Short-Term Growth Strategy

Minimize the VBP's impact by shifting to new products and launching new drugs

## 1. Focus on private hospitals

- Boost sales of *Cravit* and *Hyalein*
- Pitch *Diquas* in dry eye field

## 2. Accelerate on retail market initiatives

- Online / Offline pharmacies

## 3. Extend coverage of lower-tier hospitals



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# Growth Potential in China Market

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# Three Keywords for Achieving Business Growth

Accessing markets with high potential in the ophthalmology field

## (1) Glaucoma



## (2) Myopia



## (3) Change of market structure (private hospital / retail)



# Medical System Reform

Looking toward 2030: Opportunities related to improvements in medical care quality

## 1. Basic health insurance coverage

- 3 current insurance systems<sup>\*1</sup> to be integrated into a universal insurance system

## 2. Price control

- Securing medical funding through price cuts on high volume drugs with long-listed drugs
- Through annual revisions to NRDL<sup>\*2</sup>, aim to achieve the lowest drug prices in the world

## 3. Promoting innovation

- Significant reduction in review period for new drug applications

## 4. Directing patients to lower-tier hospitals and private hospitals

## 5. Medical reform through use of digital tools

\*1: URBMI, the Urban Residents Basic Medical Insurance. UEBMI, the Urban Employee Basic Medical Insurance. NCMS, the New Rural Cooperative Medical Scheme.

Note that as of the end of August 2018, 29 provinces had completed the merger of URBMI and NCMS. In future, URBMI and UEBMI are expected to be ultimately integrated as well.

\*2: National Reimbursement Drug List

# Responding to Medical System Reform

Need for business model reform that anticipates policy changes

Long-listed products



**Early launch of  
new products**

Concentration  
at tier 3 hospitals



**Multi Channel**

Sales representative  
coverage



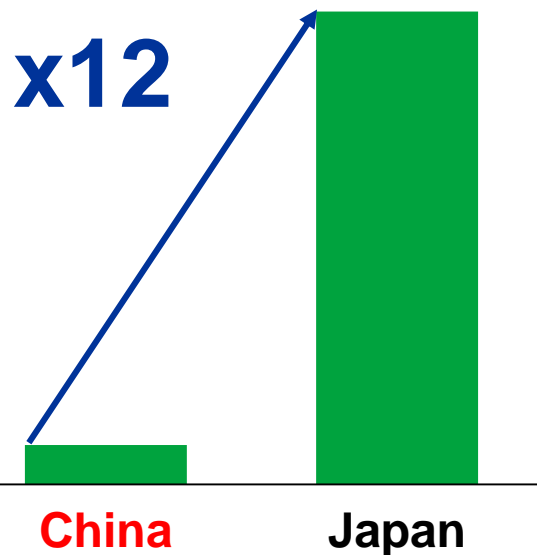
**Integration of  
Online & Offline**

# Sustainable Growth in the China Business: Glaucoma

Capture market potential through involvement in the development of an ecosystem

## Current

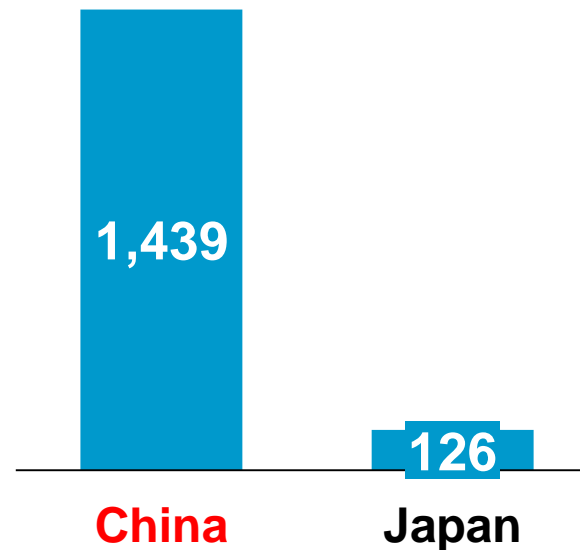
### Glaucoma Market Size (value basis) \*1



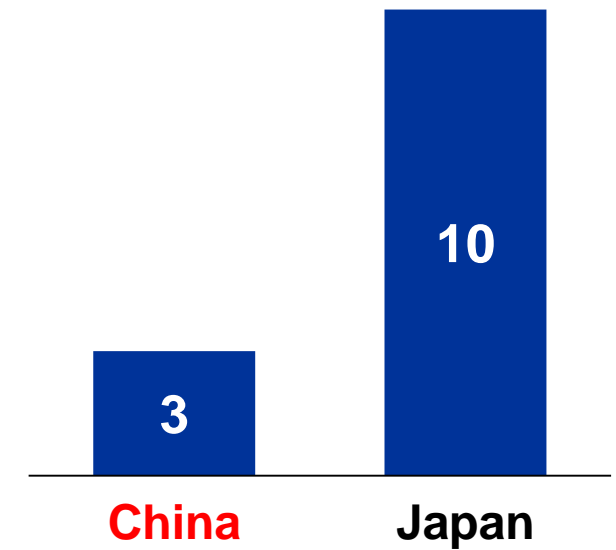
## Growth Opportunities through Development of the Eye Care Ecosystem



### Population (millions) \*2



### Ophthalmologist (per 100,000) \*3



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\*2 Source: UN World Population Prospects \*3: Santen estimation

Reprinted Q2 FY2020 Consolidated Performance material.

# Sustainable Growth in the China Business: Myopia

Chinese government recognizes childhood myopia as a major issue



**Childhood  
Myopia\*<sup>1</sup>  
(age 5-19)  
120 mil.**



## Chinese government: Measures to reduce myopia in children and adolescents

Goal to reduce child/adolescent myopia by more than 0.5% each year until 2023, relative to the nationwide percentage of child/adolescent myopia in 2018. Annual reduction target of more than 1% per year for those provinces with a high prevalence of myopia. Aim to achieve an Excellent rating of more than 25% under the National Survey on the Constitution and Health of Students by clearly reducing the incidence of child/adolescent myopia and significantly improving vision health by 2030. Goal to lower incidence of myopia to 3% in children 6 years or under, 38% or lower for elementary school-age children, 60% or lower for middle school-age adolescents and 70% or lower for high school-age adolescents.

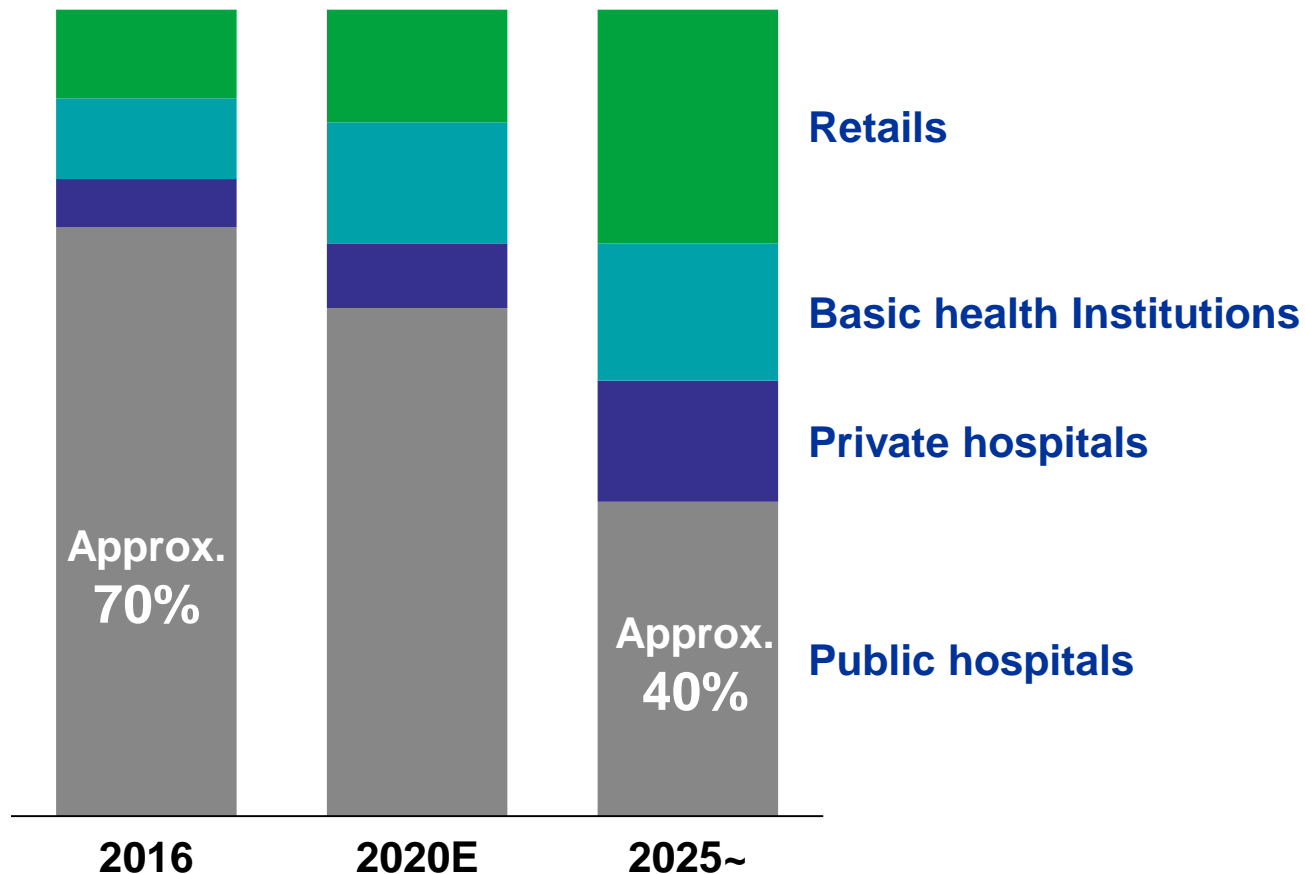
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# Changing Market Structure

Diversification of patient medical access led by changing roles of medical facilities

## Healthcare Market by Institution (Revenue basis)



## Expected Changes

### Public hospitals (tier 3)

- Center of excellence
- Focus on advanced medical practice

### Public hospitals (tier 2, tier 1, healthcare center etc.)

- Safety net / primary care

### Private hospitals

- Providing treatment to meet patient's needs

### Retails

- Self medication
- Out-of-pocket treatment needs
- Online medical treatment etc.

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# Growth Potential in China: Takeaway

Growth opportunities led by significant change in market structure

## Qualitative change

Medical system reform, digitization

## Quantitative expansion

Economic development, medical infrastructure development

## 3 keywords

Glaucoma, myopia, private / retail

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# Initiatives for Sustainable Growth

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# Growth Strategy: Medium- to Long-Term

Transformation into a more robust business platform; sustainably enhancing market presence

## 1. Transform into scientific-driven & digitally enabled business model

- Diversify market approaches with broader coverage of the market
- Emphasize focus on scientific-driven approach
- Maximize product value through commercial excellence

## 2. Strengthen product development

- Expand local independent clinical trial capabilities
- Build product development research network with top hospital sites and reputable KOLs
- Tap into local product innovation to benefit global

## 3. Enhance supply capability to secure positioning

- Suzhou 2<sup>nd</sup> factory fulfills not only current demand but is also scalable. Able to accommodate growing market needs

# New Initiatives to Secure Medium- to Long-Term Growth

Transformation into scientific-driven & digitally-enabled business model



## Multi-channel Deployment



## Online Pharmacy Collaboration



## Screening Projects Cooperation



## Scientific-driven Sales & Promotion



# New Initiatives to Secure Medium- to Long-Term Growth

Strengthen product development, enhance supply capability to secure market position



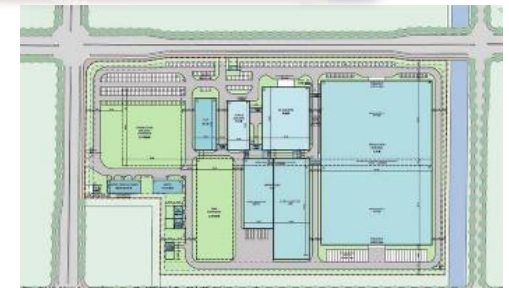
## DE-128 Surgery in Boao



## Verkazia Entered Overseas Clinical Urgent Need Drug List



## Suzhou 2nd Factory Establishment



# Sustainable Growth in China

Aiming for sustainable growth over the medium to long term by increasing target facilities and expanding the portfolio

