

CEO's Message



We announced MTP2025, a medium-term plan for the first five years of the 10-year journey toward Santen 2030—realizing “Happiness with Vision.”

As people’s interest toward well-being continues to rise, Santen aims to realize sustainable growth and enhancement of value to all stakeholders by addressing social issues and by leveraging our company’ strengths accrued over decades as a specialized company in ophthalmology.

A handwritten signature in black ink that reads "Shigeo Taniuchi".

Shigeo Taniuchi

Representative Director
President and Chief Executive Officer

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Santen's Mission to Address Eye-Related Social Issues

Santen has been focusing its business on the ophthalmology field for more than 130 years with its CORE PRINCIPLE of *Tenki ni sanyo suru*—exploring the secrets and mechanisms of nature in order to contribute to people's health.

Vision plays a critical role in every moment of life, and our societies throughout the world exist based on the ability to see. Santen's mission is to address eye-related social issues that are growing alongside global interest in eye health. Dealing with these growing social issues will yield growth opportunities, as we can leverage our strengths as a leading ophthalmology company. Santen addresses unmet medical needs, develops new products and services, and conducts business in more than 60 countries. Santen possesses distinctive experience and knowledge as a global ophthalmology leader, strong customer equity based on long-term commitment to ophthalmology, and a robust global network covering research institutes and industry partners. Hinging on these strengths, Santen aims to create a world in which each individual, through the Best Vision Experience, can achieve the greatest happiness throughout her or his life.

Medium-Term Plan MTP2025: The First Step to Achieving Santen 2030

Santen is currently making strides toward becoming a Social Innovator based on its 2030 and beyond long-term vision, Santen 2030. We intend to achieve this by orchestrating and mobilizing key technologies and players around the world, delivering happiness through vision.

Santen's expansion in ophthalmology solutions and market presence allowed for steady revenue growth with a CAGR of 8.5% throughout the period covered in the long-term vision, Vision 2020. At the same time, it is worthwhile noting that for the period relevant to the previous medium-term plan starting fiscal 2018, **MTP2020** (▶Page 15), revenue CAGR was 3.5%, the average core operating profit margin was 20.5%, and the average ROE was 7.1%, which fell short of targets. Although the worldwide COVID-19 pandemic led to unstable conditions, the major factors behind the ROE shortfall were an increase in strategic investment projects and the impact of an impairment loss related to STN2000100 (DE-128). Moving forward, improvements in revenue growth and profit margins, coupled with a transformation into a truly global organization, will be of prime importance.

The three key strategies of **MTP2025** (▶Page 16) consist of the following: profit ratio improvement in core businesses; expansion of new areas; and strengthening of foundation as a global company. Our targets for fiscal 2025 are an operating profit margin of at least 21% and ROE of at least 13%, both of which are significant improvements of 10 percentage points or more compared with fiscal 2020. We will achieve these targets by optimizing selling, general and administrative (SG&A) and other expenses, raising productivity and thoroughly improving operational efficiency, in addition to improving revenue by capturing growth opportunities and greater market share.

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Laying the Foundation for Rapid Growth by Focusing on Improving the Profit Ratio in Core Businesses under MTP2025

The first key strategy is profit ratio improvement in core businesses. We will utilize our business infrastructure in each region to achieve profit growth that exceeds revenue growth. Santen's core pharmaceutical businesses in its current operating regions (Japan, China, Asia and EMEA²) are a source of profitability and the

Key Strategies of MTP2025

Leveraging core strengths in pharma business to establish global presence, improve profitability, and capture potential opportunities in ophthalmology

Profit ratio improvement in core businesses	Expansion of new areas	Strengthening of foundation as a global company
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FY2025 Targets

	FY2020	FY2025 Targets
TSR	—	Top 1/2 level in pharma industry
Operating profit ratio ¹	5.2%	≥ 21%
ROE ¹	2.2%	≥ 13%

¹ IFRS basis

² Europe, Middle East and Africa

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primary factor differentiating Santen from other companies. Demand has remained stable through the pandemic, reaffirming to me the important role of Santen's core businesses in supporting ophthalmic care around the world.

The **Japan business** (▶Page 24) is the cornerstone of the Company. With an extensive product lineup and unparalleled customer equity, Santen has maintained the top market share,³ currently over 50%.³ At the same time, productivity per sales representative is among the highest in the industry. Going forward, we will further enhance productivity by stepping up global collaboration and initiatives using digital technologies. During MTP2025, we will also address expected negative events such as patent expirations and National Health Insurance (NHI) drug price revisions, and will improve the contribution profit ratio by continuing to launch new products and formulations tailored to market needs.

Santen's **China business** (▶Page 25) also boasts the top market share.³ The China market continues to grow. To fully capture these growth opportunities, Santen is developing new channels including private hospitals and pharmacies, expanding sales of new products such as *Diquas* and *Tapros*, broadening its customer base and establishing a presence in new markets. We plan to achieve CAGR of 11% toward fiscal year 2025 and a one percentage point increase in the contribution profit ratio, taking into account a reasonable level of pre-investment on product development in China, digital transformation and other commercial initiatives. These measures will enable Santen to build on its competitive advantage and achieve revenue growth that will more than offset the negative impact from volume-based purchasing as it develops the China business into a medium-to-long-term growth driver for the Company.

In the **Asia business** (▶Page 26), Santen will achieve a high contribution profit ratio by leveraging existing business infrastructure to launch a number of new products already sold in other regions and thereby tap into Asia's high market growth. The high number of unmet treatment needs in the region leaves substantial room for long-term market expansion by providing training support to medical professionals and raising disease awareness. Pertaining to the **EMEA**

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business (►Page 27), Santen aims to improve its contribution profit ratio by three percentage points while maintaining a stable growth trajectory. We will achieve this by launching new products and maximizing product value in areas including glaucoma and ocular surface disease, and by augmenting sales activities through digital technologies.

In all regions, we will improve profitability and achieve growth by shifting away from a quantity-based approach toward a quality-based approach when deploying management resources and undertaking other measures.

The second key strategy is expansion of new areas. Santen will enter areas where it expects medium-to-long-term growth and establish a solid foothold for rapid growth in the lead up to 2030. One such area will be the **U.S. market** (►Page 28).

The United States consists of the world's largest market, with the most advanced medical technologies and R&D capabilities. Establishing a presence is critical to the Company's future global growth. Santen's previous United States market entry dates back to 2000, kicking-off with in-house products' sales through its own sales representatives and concluding with a market exit in 2004, and registered as a bitter experience. My lesson of this experience, coupled with our subsequent successful entry into China, EMEA and Asia, indicates that products are not the sole factor determining success or failure for a new market entrant.

An appealing and competitive product portfolio is unquestionably important. Holistic strengths as a business are also important—relationships with the local ophthalmological community, a corporate brand, a global presence, high-quality business execution capabilities and human capital. In our United States market re-entry, we will begin by concentrating our management resources with a focus on the ophthalmic pharmaceuticals business, which is our strength, and fully leverage the organizational capabilities we have cultivated through our global expansion to date. In addition, Santen will deploy the human capital, products and customer base of Eyevance, which Santen acquired in 2020, to build a

framework for rapidly achieving profitability and establishing a market presence. We will substantially expand profits throughout the Americas with *Verkazia*, a treatment for vernal keratoconjunctivitis (VKC) that received FDA approval in June 2021, and the steady development and launch of products in our pipeline, in addition to Eyevance's products.

The other new areas envisioned in the second key strategy are portfolio-centered initiatives such as cell therapy and gene therapy, the out-of-pocket market and expansion into digital health. In addition to taking on new challenges in glaucoma, Santen aims to launch products in areas with substantial market growth expectations, including retinitis pigmentosa, myopia, and ptosis. For example, no treatment other than surgery addresses the underlying etiology of ptosis, which affects approximately 260 million people worldwide. Santen plans to begin marketing a product in stages starting in Asia from fiscal year 2023. From existing patients to the general consumer, there are a variety of needs related to ptosis, and I intend to broaden opportunities for growth by addressing them.

Developing an ophthalmology ecosystem will also be essential. In China and



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Asia, initiatives to expand healthcare infrastructure and improve adherence rates will lead to business growth for Santen and solutions to social issues. Moreover, due in part to the impact of COVID-19, the digital transformation of society has suddenly accelerated, and changes in patient behavior are occurring in concert with changes in the healthcare infrastructure, including the spread of out-of-pocket treatment and private insurance. In light of these social changes, Santen will also work to create a new business model for ophthalmology that combines online and real-world aspects at each step—from disease recognition to testing, diagnosis and treatment.

The third and final key strategy is strengthening the foundation as a global company, which long has been an issue for previous years. To enhance **product development** (▶Page 29), Santen intends to maximize product value by thoroughly implementing product lifecycle management including through regional expansion, product improvements and additional indications. To strengthen **product supply** (▶Page 23), Santen is constructing a new plant in Suzhou, China that will be one of among the world's largest, as well as a new wing of the Shiga Product Supply Center in Japan to handle the increased global demand of recent years and in anticipation of entry into new fields. This will further enhance global competitiveness in both production and quality, leading to growth and improved profitability over the medium term. New systems at these facilities will also reduce environmental impact in terms of energy efficiency, water efficiency and wastewater reduction.

Under MTP2025, we are working as one team to build a solid platform for growth. Achieving profit growth will center on maximizing profit from our core businesses, while as a long-term growth strategy, we also aim to further enhance corporate value while laying the foundation for new fields.

¹ Estimated total no. of patients to which Santen contributed (therapeutic areas: inflammation/allergies, cornea, glaucoma, cataracts) in FY2019 was approximately 43 million, calculated based on JMDC's estimated total number of patients for Santen's Rx products and Santen's shipment data

Implementing an ESG Strategy for the Sustainable Development of Society and Enhanced Corporate Value

MTP2025 specifies ESG-related targets. Our business activities based on our **WORLD VISION of "Happiness with Vision"** (▶Page 3) have contributed to people around the world who are facing eyesight-related issues. Contributing to patients worldwide through our products and services is our foremost challenge in light of the Sustainable Development Goals (SDGs). Concern for vision-related social issues is growing worldwide, as illustrated by the World Health Assembly's endorsement of its first targets for eye care in May 2021, and the United Nations General Assembly's recognition of the relationship between eye health and the SDGs in July of the same year. Santen will contribute to the realization of a sustainable society through the stable supply of products and services with social significance, targeting contributions to more than 60 million patients¹ by fiscal 2025.

As a company with global operations, it is crucial for Santen to address ESG issues, specifically conservation of the global environment, diversity, equity and inclusion (DE&I), and governance. **Conservation of the global environment** (▶Page 44) entails quantitative targets for fiscal 2030 of a 50% reduction in CO₂ emissions and a shift to bioplastic for 60% of eye drop containers, and Santen will further accelerate efforts to attain these targets. DE&I is aligned with one of Santen's six action principles: "Turn diversity into advantage." Each of our approximately 4,200 employees around the world makes the most of their various backgrounds to turn their diversity into an organizational advantage that leads to improved competitiveness. Also announced in this report are our new **DE&I goals** (▶Page 38). Santen is focusing on supporting the success of people with visual impairments both inside and outside the Company. For instance, four employees with visual impairments are currently working in Japan. Going forward, Santen also plans to generate employment opportunities at bases overseas.

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For **Governance** (▶Page 50), Santen has established a transparent, sound and effective structure. To make the Board of Directors more effective, the Company has structured the Board with the experience of its members and the diversity of their fields of expertise in mind. In recent decisions such as recording an impairment loss on STN2000100 (DE-128) and formulating MTP2025, the opinions of Outside Directors were invaluable in pointing out material issues and offering suggestions from specialized points of view. I will further strengthen governance through ongoing discussions and thereby ensure more appropriate decision-making by management. In addition, the Executive Compensation Committee is currently designing a compensation system linked to the execution of medium-to-long-term strategies and achievement of their targets. In June 2021, the Board of Directors decided to introduce ESG indicators into **the executive remuneration system** (▶Page 55) for fiscal 2021 onward.

By addressing ESG materialities, MTP2025 will not only directly contribute to achieving the target of universal health coverage outlined in the SDGs, but will also contribute to other development goals, such as decent work and economic growth, and responsible consumption and production. Santen is also resolved to continuing to support the United Nations Global Compact.

Increasing Corporate Value by Stepping Up Investment for Medium-to-Long-Term Growth and Shareholder Returns

Santen has always placed strong importance on shareholder returns and MTP2025 makes the shareholder return policy clearer than ever before. In addition to ensuring financial discipline in our strategic investments, we will allocate one-third or more of operating cash flow to shareholder returns, maintain

a dividend payout ratio of at least 40% and intend on the flexible return of surplus cash through share buybacks. Santen has a track record of paying stable dividends while emphasizing dividend increases. We will proactively deliver shareholder returns while maintaining a balance with investments for future growth, and remaining attentive to our cash on hand. Moreover, a target of total shareholders return in the top half of the pharmaceutical industry has been added as a key performance indicator for executive remuneration from fiscal 2021 onward.

In terms of strategic investments, to achieve Santen 2030 we will apply financial discipline in carefully selecting and implementing investments in business development and our pipeline in areas where medium-to-long-term growth is expected. We will fully utilize the assets obtained through these investments to monetize them, and through appropriate re-investment we will make contributions to society centered on patients and ophthalmology and enhance corporate value.

As interest in eye health continues to grow worldwide, we will steadily implement MTP2025 to increase competitiveness as we aim to help resolve social issues and enhance corporate value from a medium-to-long-term perspective. Together with shareholders and all other stakeholders, we at Santen will make a sustainable contribution to society by contributing to the health of people's eyes. We are counting on your continued support.

Shigeo Taniuchi

Representative Director
President and Chief Executive Officer