CFO's Message (Financial Strategies Supporting Medium-to-Long-Term Growth)

Embarking on MTP2025, Investment in Opportunities Unique to Santen Will Maximize Shareholder Value

Previous Medium-Term Plan MTP2020 Overview

To maximize shareholder value, Santen prioritizes return on equity (ROE) from the perspective of maximizing cash flow and reducing cost of capital.

ROE fell below the initial target of an annual average of 11% during MTP2020 due to nonrecurring accounting factors such as impairment losses on intangible assets. On a core basis, we met our initial target for an operating profit ratio of 21%, thus increasing profitability while still being able to make upfront outlays for R&D and other expenses.

In addition, we generated stable operating cash flow. We maintained sound finances by using internal capital resources for all investments in future growth.

Kazuo Koshiji

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Corporate Administration
Chief Financial Officer (CFO)
Head of Finance and Administration Division

Strategies of the New Medium-Term Plan MTP2025

Santen's fundamental approach remains unchanged. The Company continues to focus on ophthalmology as it increases profitability, maximizes cash creation capabilities, and improves capital efficiency (ROE) to maximize shareholder value. I will work to optimize Santen's capital structure for financial soundness, striking a balance between upfront investment/retained earnings, which will enable future growth, and shareholder returns.

Santen is emphasizing profitability with the target of 13% ROE by the end of MTP2025 and the ultimate goal of 20% ROE for fiscal 2030. We intend to keep SG&A expenses below 30% of revenue for a resilient earnings structure that generates profits in any business environment. This should improve our core operating profit ratio by about 4 percentage points. We also expect to raise the net profit ratio by 5 percentage points or more by reducing the effective tax rate to the low 20% range in fiscal 2025. We are also targeting a revenue compound annual growth rate (CAGR) of about 5% and a compound operating profit growth rate of approximately 10%.[1] We will achieve these goals by improving the contribution profit ratio (improving the operating profit ratio) in all regions and businesses.

We will make effective use of leverage to improve capital efficiency. Doing so presents us with favorable opportunities to optimize cost of capital from the perspectives of cash inflows and cash outflows. While pursuing such opportunities, we will endeavor to maintain an A+ credit rating from R&I as a measure of our financial integrity and sound cost structure, and thereby maximize our ability to make investments.

[1] Core basis. Nonrecurring charges significantly reduced profit in fiscal 2020.

CFO's Message

Resilient P&L: Aim to improve profit margin by about 5% points through profit structure optimization

Strengthen profitability and secure funds for investing to realize Santen 2030

	Direction (FY2020 → FY2025)	Main measures
Cost of sales (%)	Cost of sales ratio increased from 39% to 36%.	• Decrease in cost of sales ratio by optimizing product and regional mix • Efficiency improvements such as the start of operations at the new plant in Japan contributed in the late stage
SG&A expenses (%)	Restrained to the 30% level	• Review of activities on a new normal basis • Improve productivity by introducing next-generation ERP
R&D expenses (%)	Maintain approx. 10%	• Early development of LCM products × regional development (Strengthen LCM)
Core operating profit (%)	From 20% to 24% From JPY 50.1 billion to JPY 75.0 billion	• Improve by 4% points to balance upfront expenditures for the future with short-term profits
Operating profit (%)	From 5% (16%[1]) to 21% JPY 12.9 billion (JPY 38.0 billion[1]) to JPY 66.0 billion	• Absorbed depreciation costs associated with CAPEX and business development investment • Improvement of about 5% points
Taxes (%)	From an effective tax rate of 47% (28%[1]) to the low 20s%	• Globalization and optimization of revenue sources
Net profit (%)	From 3% (12%[1]) to 16%	• 5% points improvement in after-tax profit base

Capital Allocation

We will supplement net cash from operating activities with external funding while maintaining sound, stable finances. We will also mitigate long-term funding risk by laddering redemptions and repayments. In addition, we are centralizing financing at its International Financial Head Quarter (IFHQ) in Geneva, Switzerland, thereby improving capital efficiency by funding regional capital requirements using a cash management system.

We will invest in capital expenditures and business development to generate future growth. Santen recognized impairment in fiscal 2019 and fiscal 2020 for assets acquired during the FY2014-2017 Medium-term Management Plan. Investments are

[1] Assumptions excluding one-time factors such as impairment

CFO's Message

our top priority because shareholders and the capital markets expect us to create value by allocating capital to opportunities only Santen can turn into successes. The large-scale capital investment cycle we initiated in fiscal 2020 to enhance global competitiveness that includes increasing production capacity in Japan and China, and upgrading ERP is key. We will also continue to invest strategically to acquire external resources that contribute to growth in our businesses. We will evaluate investments to ensure that they are accretive in the near term, and enhance asset turnover in existing businesses, which should mitigate the negative impact on capital efficiency from asset growth. In addition, my intention is to increase return on invested capital by optimizing the balance with respect to volatility between low-risk capital investments and investments in business development that are more subject to external factors beyond our control.

Shareholder Returns

Shareholder returns are a priority for Santen's management. Our goal is to increase total shareholders return (TSR) through direct payment of dividends and share price increases over the medium and long term.

First, we will maximize profits by enhancing the profitability of the investments discussed earlier. We expect this will contribute to medium-term share price gains. Dividends are the primary form of shareholder returns. Santen also intends to deploy its internal capital reserves accumulated over a period to further enhance shareholder returns through share repurchases subject to market conditions. This will reward medium- and long-term shareholders. Specifically, we plan to deploy approximately one-third of operating cash flow as shareholder returns while targeting a dividend payout ratio of around 40%.

Capital Allocation & Shareholder Returns Policy

Optimize balance between future growth and shareholder return

Shareholder return: 1/3 or more of operating cash flow

BD investment: tens of billion JPY~

Utilize operating CF to enhance shareholder value

- Secure a dividend payout ratio of at least 40%
- Apply financial discipline to carefully select and implement strategic investments that will drive mid-to-long term growth and increase corporate value
- Flexibly return surplus funds that we have accumulated over a period through share buybacks

Enhancement of core business

Capital investment: JPY 100.0 billion

- Utilize debt given solid prospects for recovery of investment, while bearing in mind financial discipline and optimization of capital structure
- Reduce the cost of capital

Maintain necessary cash for business continuity
(Secure working capital)

Maintain current level