

# MD&A

## Summary of Consolidated Results in FY2020

### Revenue, Operating Profit and Net Profit

Revenue in the fiscal year ended March 31, 2021 increased by 3.3% year-on-year to JPY 249.6 billion. In the mainstay prescription pharmaceuticals business, sales showed steady growth, rising to JPY 234.7 billion, up 4.5% year-on-year despite the impact of the COVID-19 outbreak, with continued growth in Japan, China and Asia.

Gross profit in the fiscal year ended March 31, 2021 increased by 3.2% year-on-year to JPY 151.4 billion. SG&A expenses increased by 5.2% and R&D expenses increased by 3.3% year-on-year. As a result, operating profit on a core basis in the fiscal year ended March 31, 2021 increased by 0.2% year-on-year to JPY 50.1 billion.

SG&A expenses on IFRS basis increased by 8.4% year-on-year. In addition to SG&A expenses on a core basis, expenses of JPY 2.4 billion were incurred including one-time expenses in connection with the acquisition and the integration of Eye Vance Pharmaceuticals Inc. (U.S.) and the transition to a holding company structure and change in fiscal year. R&D expenses have not been adjusted from the core basis.

Other income amounted to JPY 16.0 billion. This was mainly due to a gain on reversal of change in fair value (value other than the time value) of the contingent consideration for InnFocus, Inc (U.S.), the developer of glaucoma device STN2000100 (DE-128, *PRESERFLO MicroShunt*), which had been recorded as a liability at the time of acquisition. The change is the result of reviewing the value of this asset based on the assumption that the approval date in the U.S. will be delayed.

Other expenses amounted to JPY 40.9 billion. This was mainly due to the recording of an impairment loss on intangible assets (goodwill and development, manufacturing and sales rights) related to InnFocus, Inc. (U.S.), as a result of reviewing the value of this asset based on the assumption that the approval date in the U.S. will be delayed.

As a result, operating profit on IFRS basis in the fiscal year ended March 31, 2021 decreased by 61.5 % year-on-year to JPY 12.9 billion.

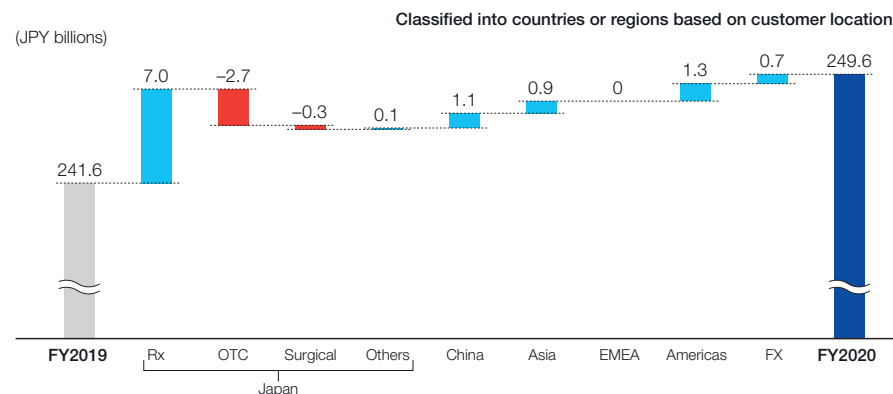
Finance income amounted to JPY 1.3 billion. This was mainly due to dividends received from investment securities held. Finance expenses amounted to JPY 1.5 billion. This was mainly due to a change in the time value associated with the fair value of the InnFocus, Inc.

(U.S.) contingent consideration.

Income tax expenses amounted to JPY 5.8 billion, down JPY 4.6 billion compared to previous year. This was mainly due to a decrease in tax expenses for the fiscal year under review associated with the increase of tax exemptions for study and research expenses and the reversal of deferred tax liabilities related to the impairment loss on development, manufacturing and sales rights, and the decrease in profit before tax for the year, as a function of the decrease in operating profit on IFRS basis. As a result, net profit in the year ended March 31, 2021 decreased by 69.4% year-on-year to JPY 6.6 billion.

Net profit attributable to owners of the company in the fiscal year ended March 31, 2021 decreased by 71.1% year-on-year to JPY 6.8 billion. The ratio to revenue was 2.7%.

### Revenue by Region



Revenue in prescription pharmaceuticals at Japan business increased by 4.7% year-on-year to JPY 155.8 billion despite of the negative sales impact of NHI drug price revisions. *Alesion LX*, a high-dose formulation and long-lasting effectiveness, and *EYLEA\**, an intravitreal VEGF Inhibitor, boosted the sales ended March 31, 2021. The revenues of OTC pharmaceuticals and medical devices in the fiscal year ended March 31, 2021 decreased due to factors such as decreased inbound demand and the negative impact of COVID-19 respectively. As a result, the total revenue in Japan increased by 2.5% year-on-year to JPY 169.1 billion in fiscal year 2020.

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Revenue at China business in the fiscal year ended March 31, 2021 increased 4.6% year-on-year (+4.8% excluding FX impact), to JPY 23.3 billion. *Cravit* ophthalmic solution revenue was impacted by the start of volume-based purchasing from the fiscal year under review. However, the Company has focused further on expanding other market channels such as private hospitals and pharmacies.

Revenue at Asia business in the fiscal year ended March 31, 2021 increased 4.4% year-on-year (+5.2% excluding FX impact), to JPY 17.2 billion.

Revenue at EMEA business in the fiscal year ended March 31, 2021 increased 2.5% year-on-year (+0.1% excluding FX impact), to JPY 37.9 billion.

Revenue at Americas business in the fiscal year ended March 31, 2021 was JPY 2.0 billion. Revenue from Eyevance Pharmaceuticals Holdings Inc. (U.S.) which Santen acquired in the second quarter of the fiscal year was JPY 1.0 billion.

\* Co-promoted product of Bayer Yakuhin, Ltd. (MAH)

### Financial Position

Total assets amounted to JPY 402.4 billion, down JPY 6.4 billion from the end of the previous year. Despite increases in intangible assets mainly associated with the acquisition of Eyevance Pharmaceuticals Holdings Inc. (U.S.), and accounts receivable and other receivables, there was a decrease in intangible assets in connection with impairment losses on intangible assets (goodwill and development, manufacturing and sales rights) related to InnFocus, Inc. (U.S.), the developer of glaucoma device, STN2000100 (DE-128, *PRESERFLO MicroShunt*) on the assumption that the approval date in the U.S. will be delayed as well as a decrease in cash and cash equivalents. Equity amounted to JPY 307.1 billion. There was an increase of JPY 4.5 billion from the end of the previous fiscal year ended March 31, 2020. This was due to an increase in components of equity despite the decrease in retained earnings. Liabilities amounted to JPY 95.3 billion, falling by JPY 10.9 billion from the end of the previous fiscal year ended March 31, 2020. This was due to the decrease in financial liabilities resulting from changes in the fair value of contingent consideration and payment associated with the InnFocus, Inc. (U.S.) acquisition despite an increase in accounts payable and other payables. As a result, the ratio of equity attributable to owners of the com-

pany to total assets increased by 2.3 points from the end of the previous fiscal year ended March 31, 2020 to 76.4%.

### Capital Expenditures and Cash Flows

Capital expenditures in the fiscal year ended March 31, 2021 amounted to JPY 11.3 billion. With the aim of addressing expanding demand and reinforcing the production and supply structure, Santen has added a prescription ophthalmic solution manufacturing building on the site of its Shiga Product Supply Center. The company also commenced investment in a new factory for Santen Pharmaceutical (China) Co., Ltd. The swift move adds production capacity to proactively cater to anticipated market growth, thereby establishing Santen's competitive edge globally for even greater business growth. In addition, Santen will continue to investment in next generation ERP, with the aim of enhancing administrative standardization and production efficiency to support global business expansion.

Cash flows from operating activities amounted to JPY 38.8 billion. (JPY 39.9 billion in the previous fiscal year ended March 31, 2020). This was mainly due to the net profit of JPY 6.6 billion, the impairment loss on intangible assets mainly related to InnFocus, Inc. (U.S.) of JPY 40.7 billion, the JPY 17.3 billion decrease in long-term payables in connection with changes in the fair value of contingent consideration and payments associated with the InnFocus, Inc. (U.S.) acquisition, depreciation and amortization of JPY 16.8 billion, income tax paid of JPY 12.8 billion and the increase in accounts receivables and other receivables of JPY 7.5 billion.

Cash flows from investing activities amounted to JPY 53.4 billion. (JPY 5.2 billion in the previous fiscal year ended March 31, 2020). This was mainly due to the purchase of shares of subsidiaries associated with the acquisition of Eyevance Pharmaceuticals Holdings Inc. (U.S.) amounting to JPY 23.8 billion and the purchase of intangible assets amounting to JPY 19.7 billion, associated with licensing contracts with jCyte, Inc. (U.S.) of JPY 5.5 billion, Aerie Pharmaceuticals, Ireland Ltd. (Ireland) of JPY 5.2 billion and others.

Cash flows from financing activities amounted to JPY 16.7 billion (JPY 12.7 billion in the previous fiscal year ended March 31, 2020). This was mainly due to cash dividends paid of JPY 11.2 billion.

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As a result, cash and cash equivalents at the end of the fiscal year ended March 31, 2021 decreased by JPY 28.5 billion from the end of the previous fiscal year ended March 31, 2020 to JPY 62.9 billion.

### Basic Policy on Profit Distribution

Santen regards returning profits to shareholders as a top management priority. Our basic policy is to return profits to shareholders primarily through dividends, based on a comprehensive consideration of the medium-to-long-term business environment, funding needs, the level of internal reserves and the capital structure. We consider share repurchases as a supplementary means of returning profits to shareholders.

Regarding internal reserves, we will invest resources in R&D, business development, and capital investment for future growth. Flexibly return surplus funds through share buybacks.

Santen increased cash dividends per share for fiscal 2020 by JPY 1.00 from the previous fiscal year to JPY 28.00, for a dividend payout ratio of 163.9% due to impairment losses on related to InnFocus, Inc. (U.S.).

The Company plans to pay an annual dividend of JPY 32, increasing cash dividends per share for fiscal 2021 by JPY 4 from the previous fiscal year, for a dividend payout ratio of 41.5%.

### Outlook for Fiscal 2021

In the first year of the medium-term plan MTP2020, Santen forecasts to increase to JPY 260.0 billion, or up 4.2% from the previous fiscal year ended March 31, 2021. While the NHI drug price revisions will have an impact, the Company expects to maintain steady growth in its domestic business. For the overseas business, in addition to growth in China, Asia and EMEA, the Company will focus on entering the U.S. market in earnest, leveraging the commercial base of Eyevance Pharmaceuticals Holdings Inc. (U.S.) which Santen acquired in September 2020. Core operating profit, which reflects the Company's recurring profitability, is forecast to be JPY 52.0 billion, an increase of 3.8% from the previous fiscal year. The company aim to secure sustainable profit growth by maintaining a balance between allocating resources for future growth while stepping up measures to limit ordinary expenses through continuous

disciplined expense control.

Operating profit on IFRS basis is forecast to increase to JPY 41.5 billion, up 221.3% from the previous fiscal year. This is mainly due to the absence of one-time profit and expenses in the fiscal year ending March 31, 2022: a gain on reversal of change in fair value of the InnFocus, Inc. (U.S.) contingent consideration of JPY 15.2 billion and the recording of an impairment loss on intangible assets (goodwill and development, manufacturing and sales rights) of JPY 40.3 billion. Net profit for the year is forecast to increase to JPY 30.5 billion, up 359.0% from the previous fiscal year ended March 31, 2021. This is mainly due to the increase in operating profit, the tax burden rate is expected to be lower for the fiscal year ending March 31, 2022 on the expected absence of one-time profit and expenses incurred in the fiscal year ended March 31, 2021, related to InnFocus Inc. (U.S.)

These forecasts are based on foreign exchange rates of US\$ 1 = JPY 105, EUR 1 = JPY 125 and CNY 1 = JPY 16.5.

Forecasts above are based on the currently available information. Actual results may differ materially depending on a number of factors including adverse economic conditions and others.

### FY2021 Revenue Forecast by Region (YoY)

