

Q1 FY2018 Earnings Conference Call



August 2, 2018

Santen Pharmaceutical Co., Ltd

Santen's Values and Mission Statement

Values

天機に参与する

*Tenki ni sanyo suru*¹

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

Santen’s original interpretation of a passage from chapter 22 of *Zhongyong (The Doctrine of the Mean)* by Confucius.

We think carefully about what is essential, decide clearly what we should do, and act quickly.

Mission Statement

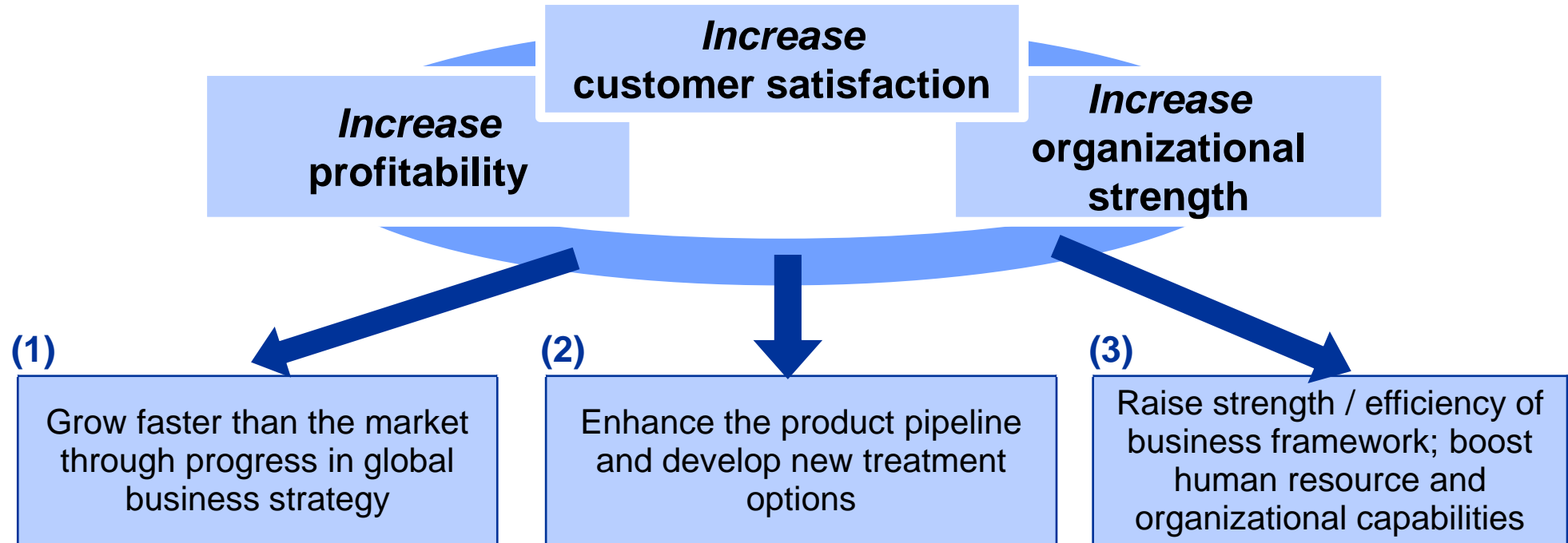
By focusing on ophthalmology, Santen develops unique scientific knowledge and organizational capabilities that contribute to the well-being of patients, their loved ones and consequently to society.

MTP2020 Fundamental Policy and Strategic Goals

Fundamental policy

- To become a “Specialized Pharmaceutical Company with a Global Presence”
- Construct a path for sustainable growth beyond FY2020

Strategic goals



Responding to the needs of patients and medical professionals worldwide, Santen will achieve reliable growth while sustainably contributing to ophthalmic treatment worldwide

Q1 FY2018 Financial Results ended June 30, 2018

Q1 FY2018 Financial Overview

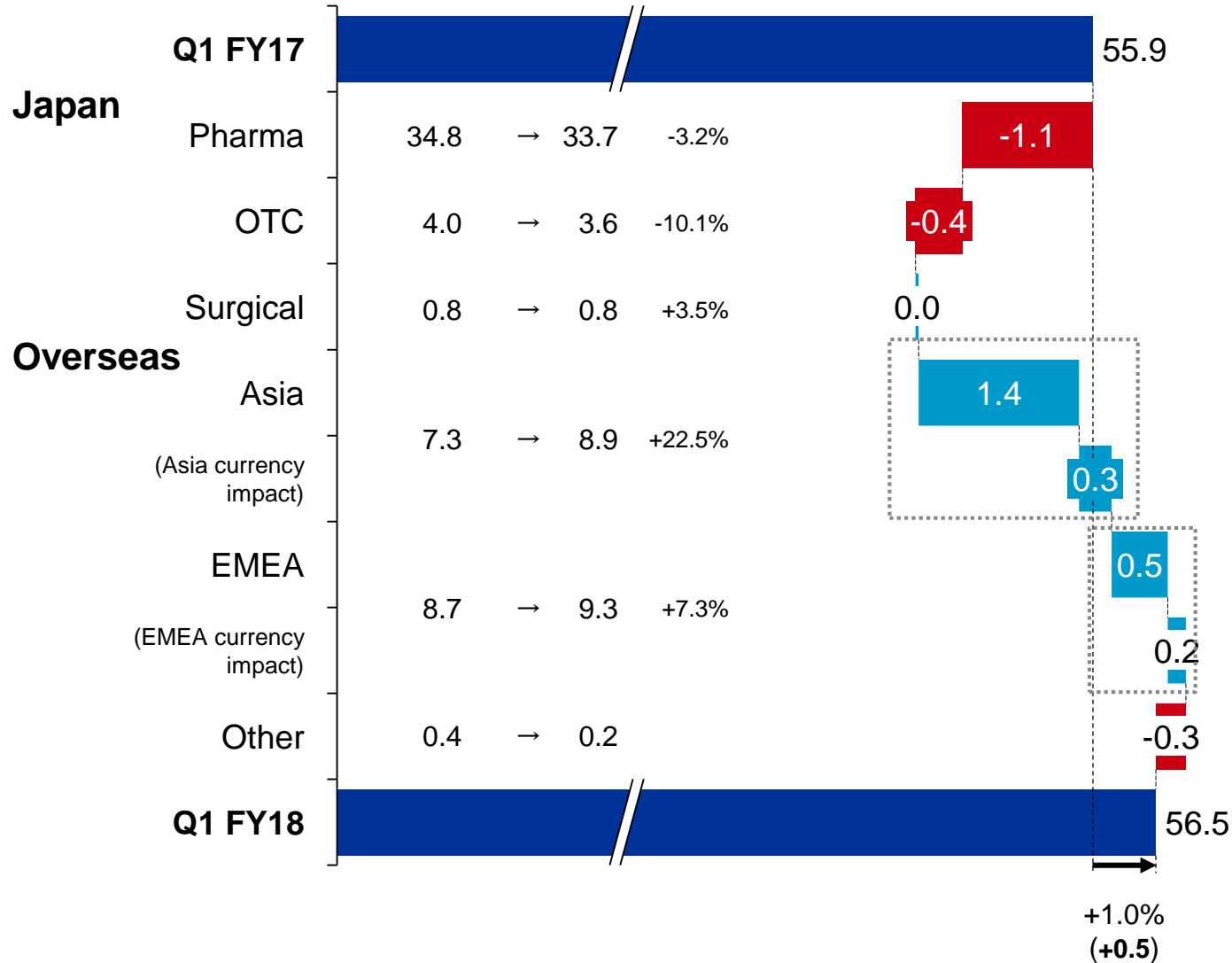
Achieved revenue growth despite Japan NHI price cuts; profit lower YoY; Results in-line with annual forecast

| | | |
|-------------------------|---|--|
| Revenue | Higher revenue as overseas business growth offset negative impact from NHI price cuts | |
| | <u>56.5 bil yen</u> YoY: +1.0% | |
| Operating profit | NHI price cuts and transitory positive factor in Q1 of prior year caused lower profit YoY; cost optimization activities implemented to control SGA expenses across businesses; results in-line with annual forecast | |
| | Core basis <u>11.7 bil yen</u> YoY: -14.8% | IFRS basis <u>10.0 bil yen</u> YoY: -16.9% |
| | SGA 16.2 bil yen | YoY: +7.4% |
| | R&D 5.6 bil yen | YoY: +0.1% |

Q1 FY2018 Revenue

Overseas business continued strong growth

(JPY billions)



Japan business

| | |
|--------------|---|
| Japan pharma | Negative impact of NHI price cuts (total impact exceeded -4%) mitigated by revenue growth of <i>Eylea</i> *1 (+6.6%), <i>Diquas</i> (+5.2%) |
| OTC | Inbound and domestic demand trends stable, though revenue lower by comparison due to sales campaign for <i>Sante FX</i> in Q1 of prior year |
| Surgical | Promoting sales activities in cooperation with Japan pharma business |

Overseas business

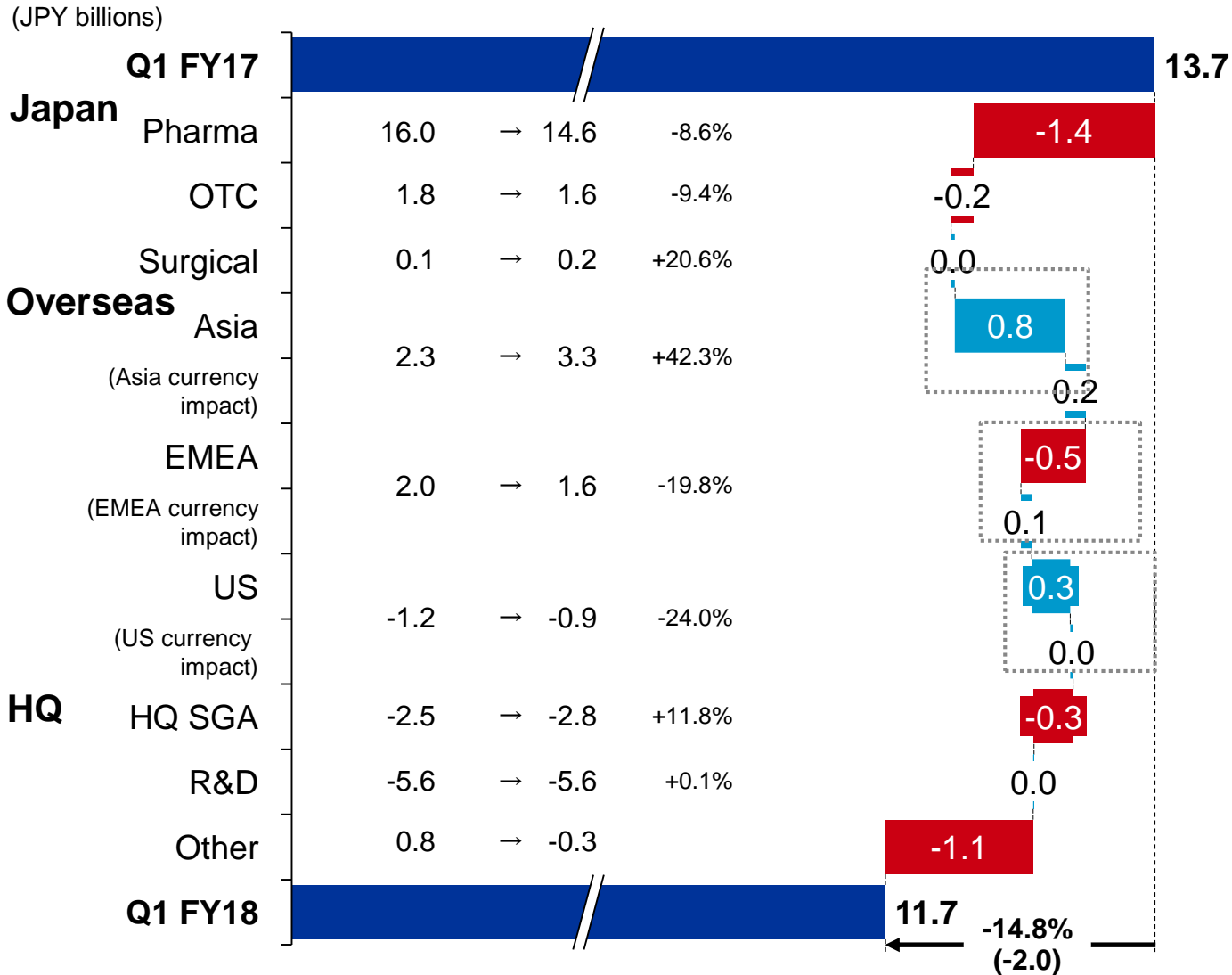
| | |
|------|--|
| Asia | Continued strong growth especially in China and Korea; China: +32.0%, Korea: +25.2% (JPY) |
| EMEA | Continued strong growth especially in Italy and Germany with <i>Cosopt</i> , <i>Tapros</i> and <i>Ikervis</i> , though Russia decreased due to transitory factor in prior year Italy: +17.2%, Germany: +8.4% |

| | Q1 FY17 | Q1 FY18 |
|-----|------------|------------|
| USD | JPY 111.33 | JPY 108.87 |
| EUR | JPY 122.95 | JPY 129.57 |
| CNY | JPY 16.22 | JPY 17.01 |

*Eylea**1: co-promoted product of Bayer Yakuhin, Ltd. (MAH)

Q1 FY2018 Core Operating Profit

Cost optimization efforts reduced the negative impact from NHI price cuts; results in-line with annual forecast



Japan business

| | |
|--------------|--|
| Japan pharma | YoY impact from transitory revenue boost in Q1 of prior year, COGS ratio increase due to NHI price cut and product mix; SGA expenses lower with cost control efforts |
| OTC | YoY impact with sales campaign boost in Q1 of prior year; SGA expenses lower with cost control efforts |

Overseas business

| | |
|------|---|
| Asia | Higher with revenue growth and expense management |
| EMEA | Though good profit recorded in the various countries, profit was temporarily lower, impacted by Russia which experienced demand boost in 1H of prior year |
| US | Lower mainly with suspension of DE-109 U.S. market launch related expenses |

R&D expenses

Nearly flat on completion of DE-117 clinical trials in Japan, the suspension of DE-109 and cost optimization efforts

| | Q1 FY17 | Q1 FY18 |
|-----|------------|------------|
| USD | JPY 111.33 | JPY 108.87 |
| EUR | JPY 122.95 | JPY 129.57 |
| CNY | JPY 16.22 | JPY 17.01 |

Performance by Business (Japan)

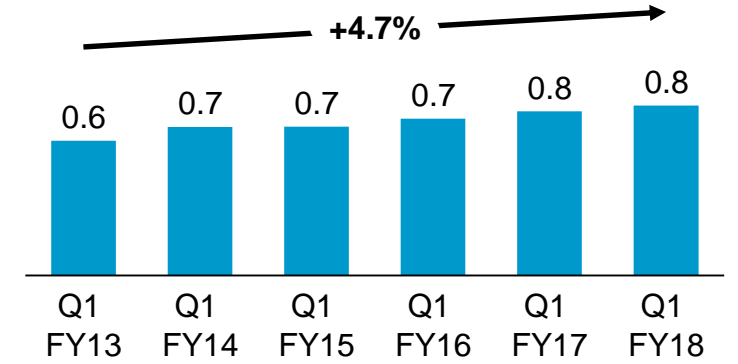
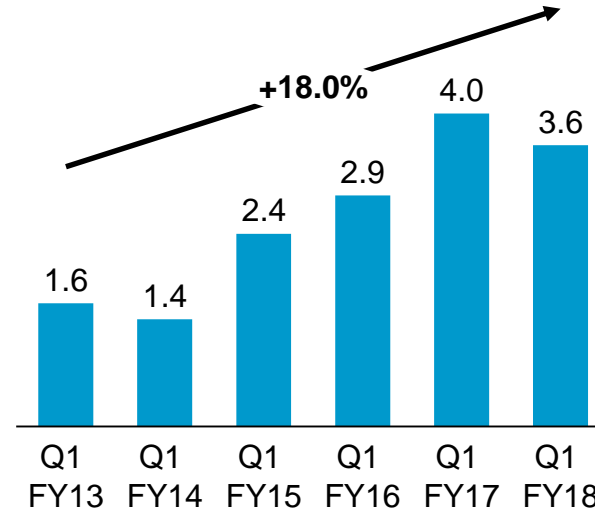
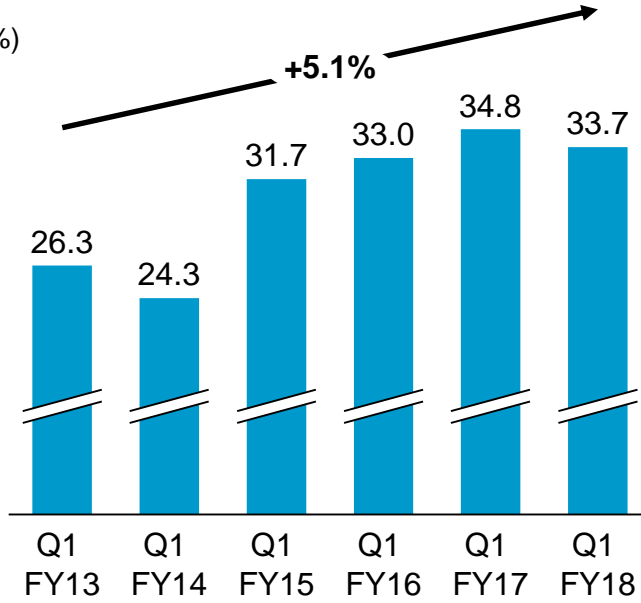
【Japan pharma】

【OTC】

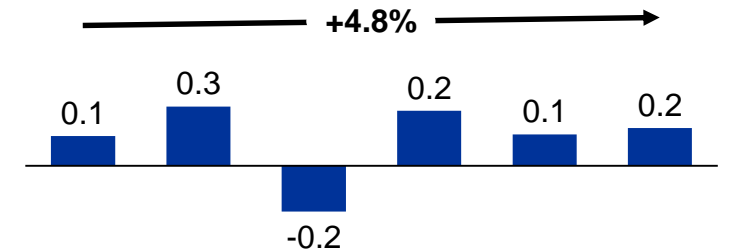
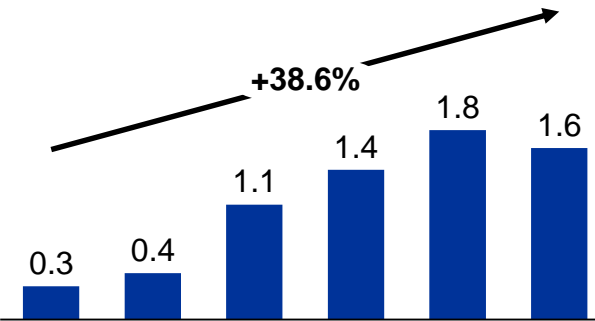
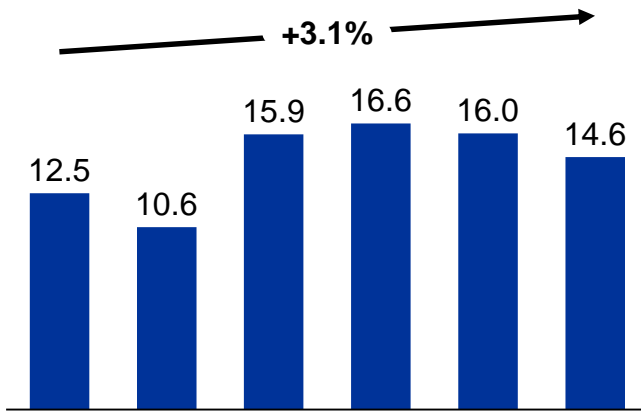
【Surgical】

(JPY billions, CAGR%)

Revenue



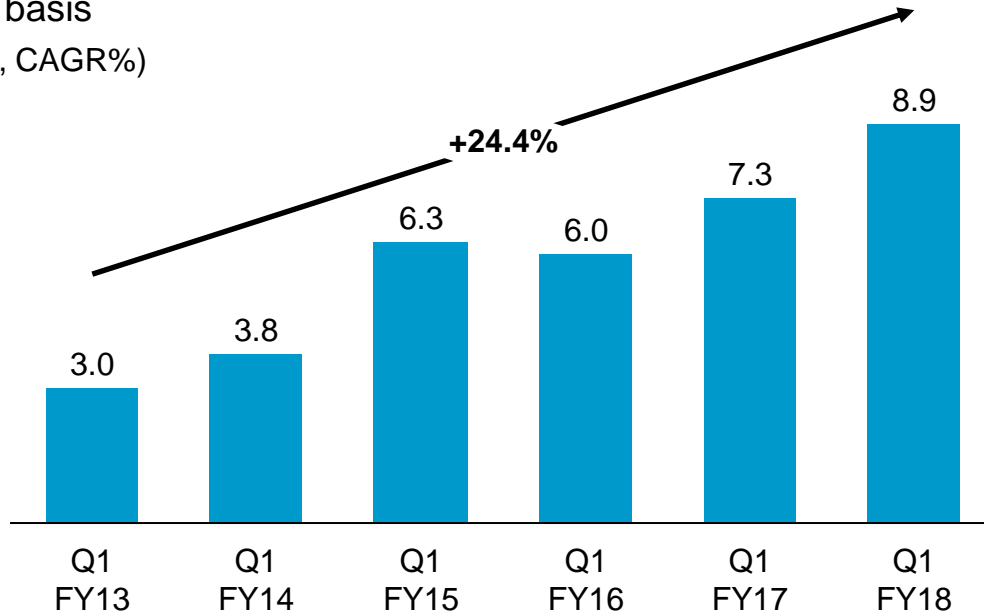
OP before R&D



Performance by Business (Asia)

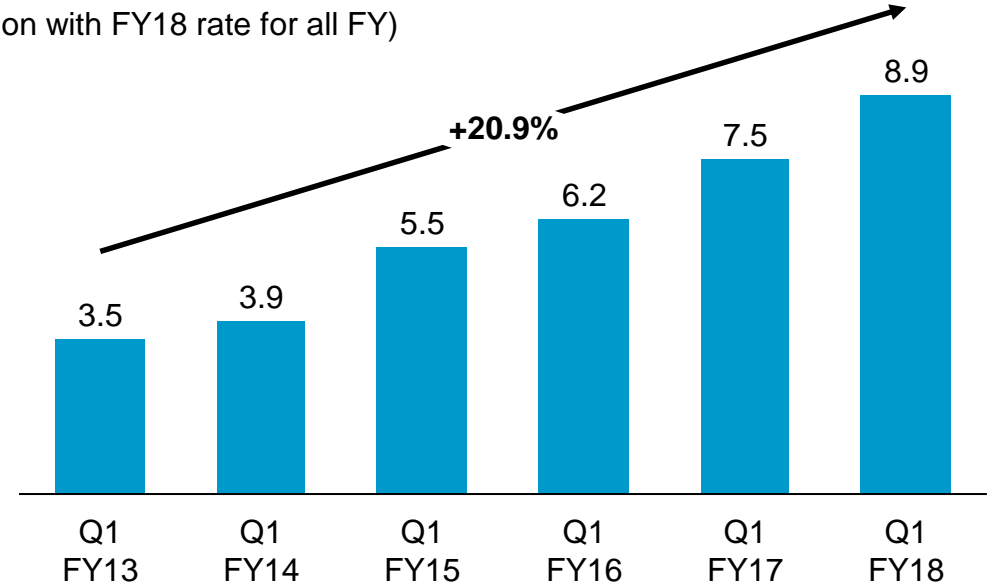
Japan yen basis
(JPY billions, CAGR%)

Revenue

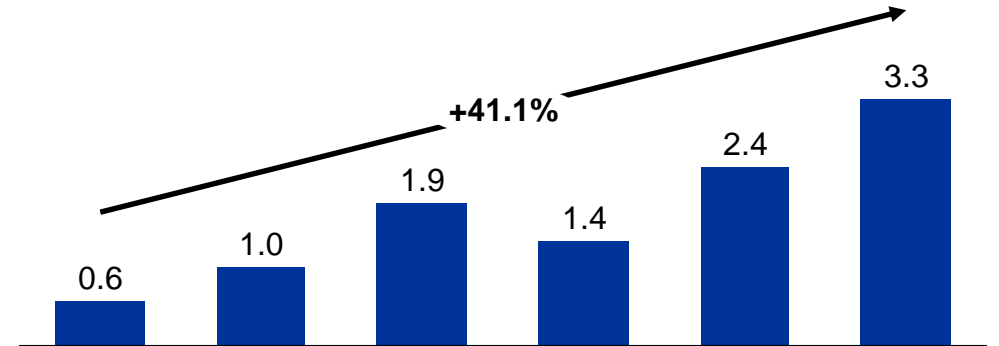
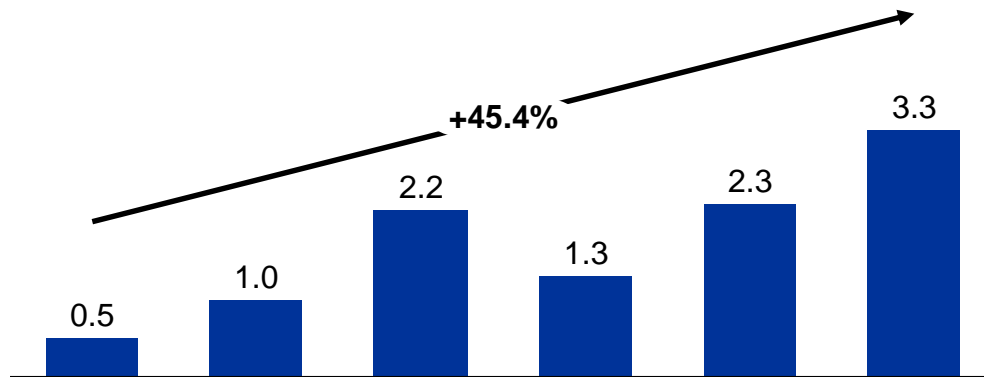


Local currency basis

(Conversion with FY18 rate for all FY)

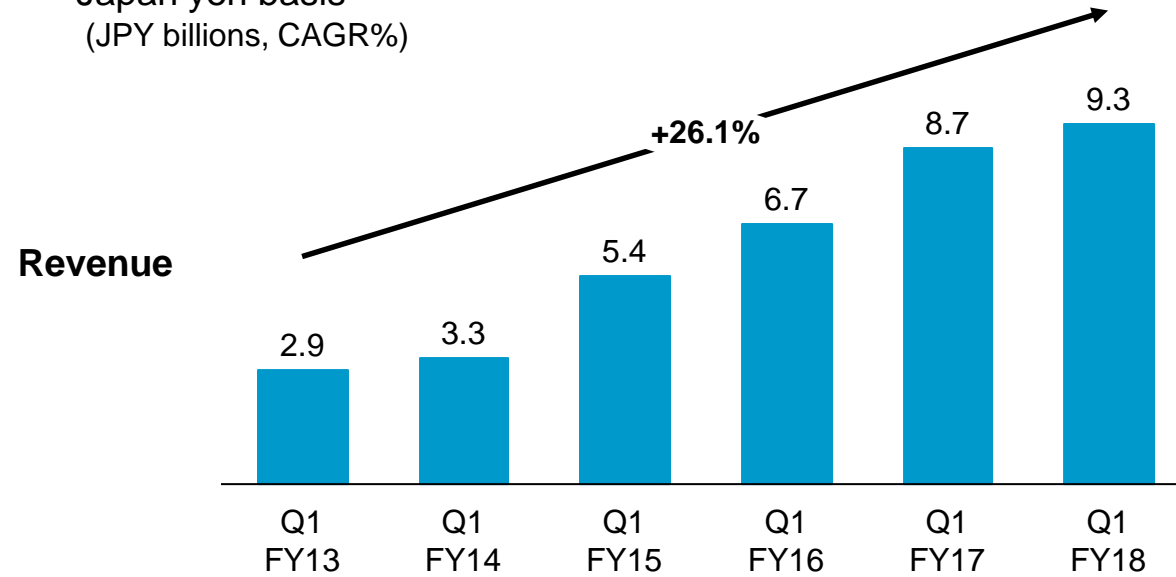


OP
before R&D

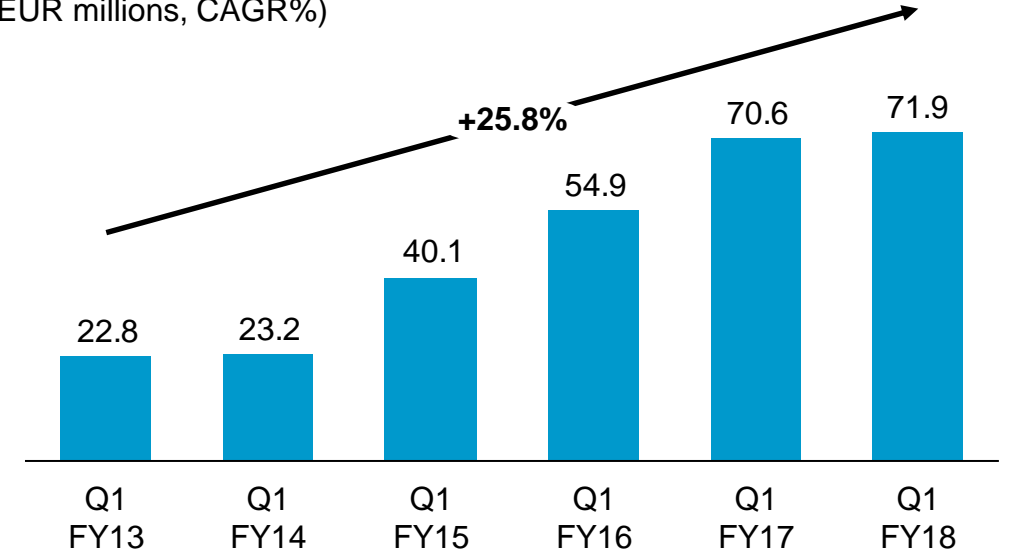


Performance by Business (EMEA)

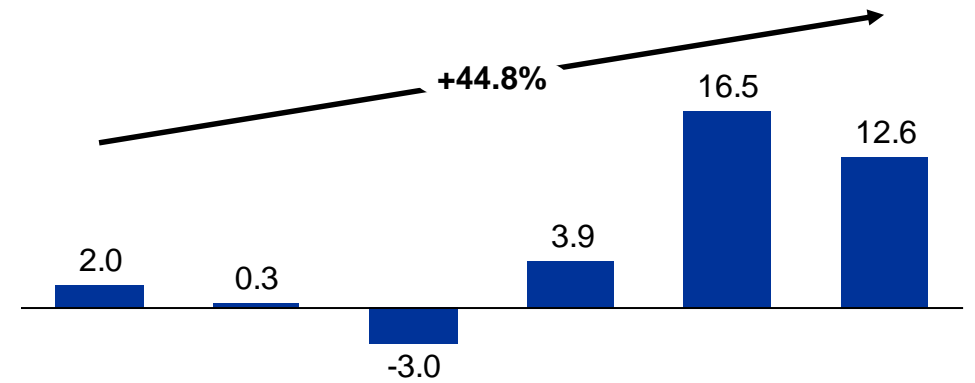
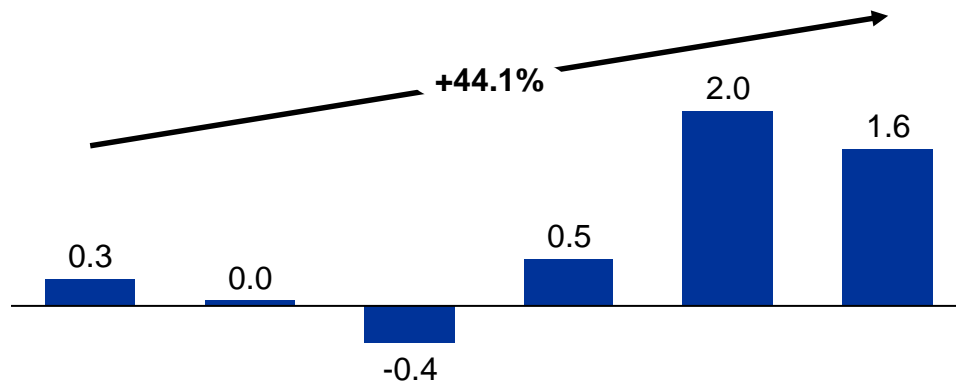
Japan yen basis
(JPY billions, CAGR%)



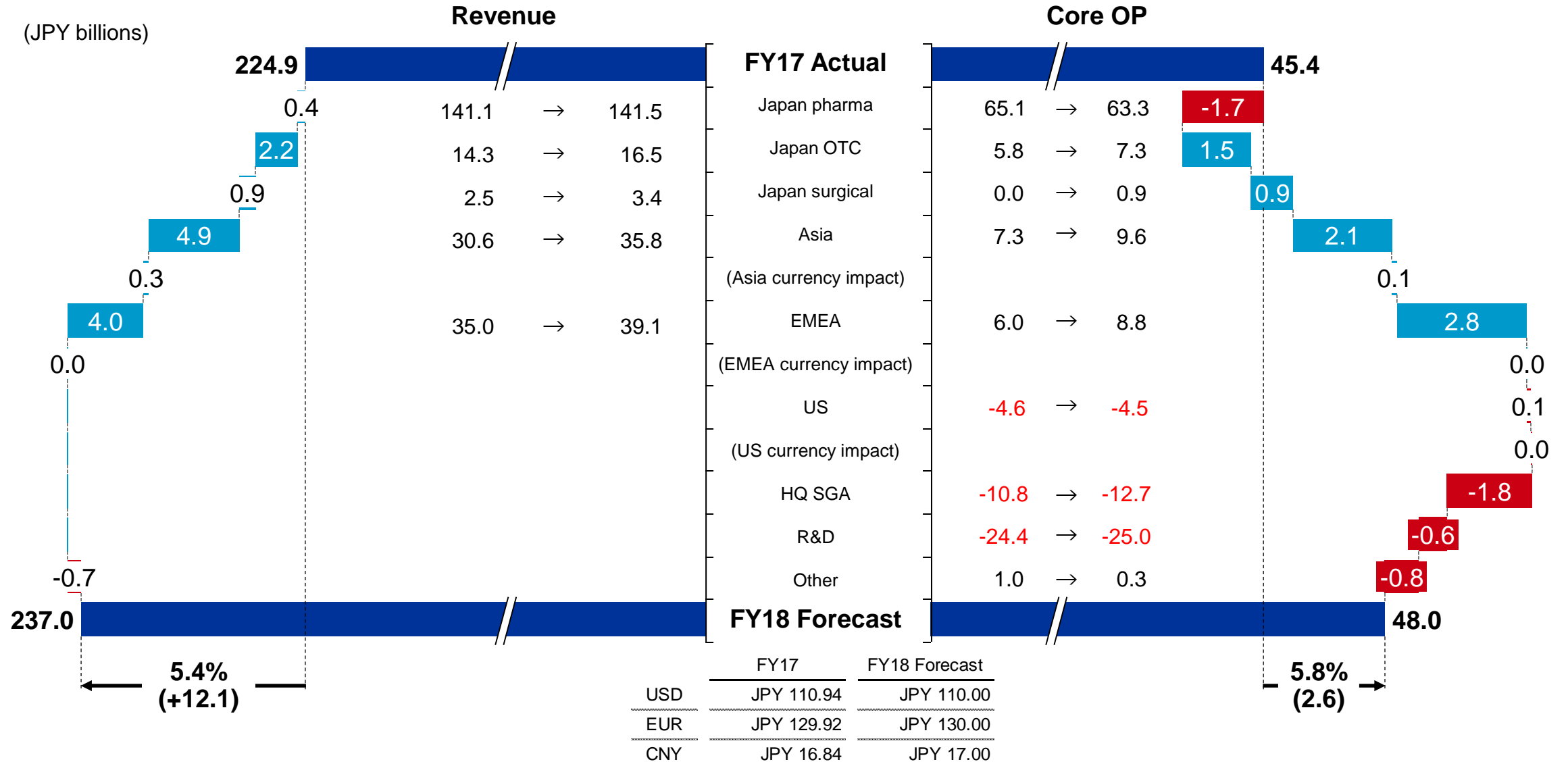
EURO basis
(EUR millions, CAGR%)



**OP
before R&D**



FY2018 Forecast (No change from May 9)



Dividend Forecast for FY2018 (No change from May 9)

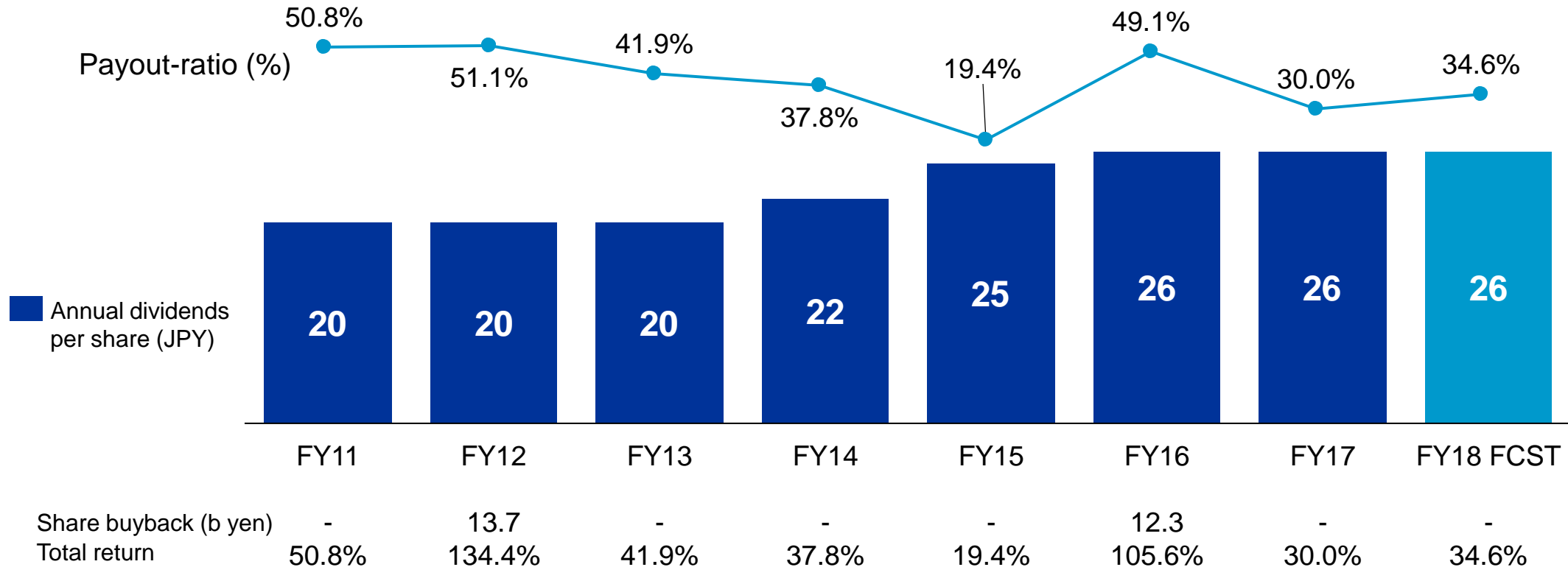
- Annual Dividends

FY2018 forecast: JPY 26 / share

- Stable and sustained return to shareholders

- Mid and Long term strategic investment for the growth beyond 2020

>>>Implementing shareholder returns policy to achieve the best balance between above two priorities considering dividends and total return



The company implemented a 5-for-1 stock split on April 1, 2015. Accordingly, the calculations of annual dividend per share have been adjusted in all periods for comparison purposes. J-GAAP standards used until FY13, IFRS applied from FY14.

Status of Research & Development



Naveed Shams, M.D., Ph.D.

Senior Corporate Officer

Chief Scientific Officer (CSO)

Head of Global Research & Development

Pipeline / Product Development Status (1)

As of August 1, 2018

| | Indication | Region | Status |
|---|---|--------|--|
| DE-117 EP2 receptor agonist | Glaucoma / ocular hypertension | US | P2 <i>Plan: 2nd half FY2018 P3 start</i> |
| | | Japan | Filed <i>Plan: 2nd half FY2018 approval</i> |
| | | Asia | P3 <i>Plan: 2nd half FY2018 P3 completion</i> |
| DE-126 FP/EP3 receptors dual agonist | Glaucoma / ocular hypertension | US | P2b |
| | | Japan | |
| DE-128 <i>InnFocus MicroShunt</i> | Glaucoma | US | P2/3 <i>Plan: Calendar 2018~2019 P2/3 completion, Calendar 2020~2021 launch</i> |
| | | Europe | CE mark granted |
| DE-109 IVT sirolimus | Uveitis | US | P3 <i>Plan: 2nd half FY2018 an additional clinical trial start</i> |
| | | Japan | P3 |
| | | Europe | P3 |
| | | Asia | Filed |
| DE-122 Anti-endoglin antibody | Wet age-related macular degeneration | US | P2a <i>Plan: Jan~Jun 2019 P2a completion</i> |

Pipeline / Product Development Status (2)

As of August 1, 2018

| | Indication | Region | Status |
|--|--|--------|---|
| DE-089 <i>Diquas</i> | Dry eye | China | Approved <i>Plan: FY2018 launch</i> |
| DE-076B <i>Cyclokat / Ikervis</i> ciclosporin | Severe keratitis in patients with dry eye | Asia | Launched |
| | | US | P2 |
| DE-076C <i>Vekacia / Verkazia</i> ciclosporin | Vernal kerato-conjunctivitis | Europe | <u>Approved</u> |
| DE-114A epinastine HCl (high dose) | Allergic conjunctivitis | Japan | <u>P3 completion</u> <i>Plan: 2nd half of FY2018 filing</i> |
| DE-127 atropine sulfate | Myopia | Asia | P2 <i>Plan: 2nd half of FY2019 P2 completion</i> |

Appendix

Q1 FY2018 Profit and Loss Statement

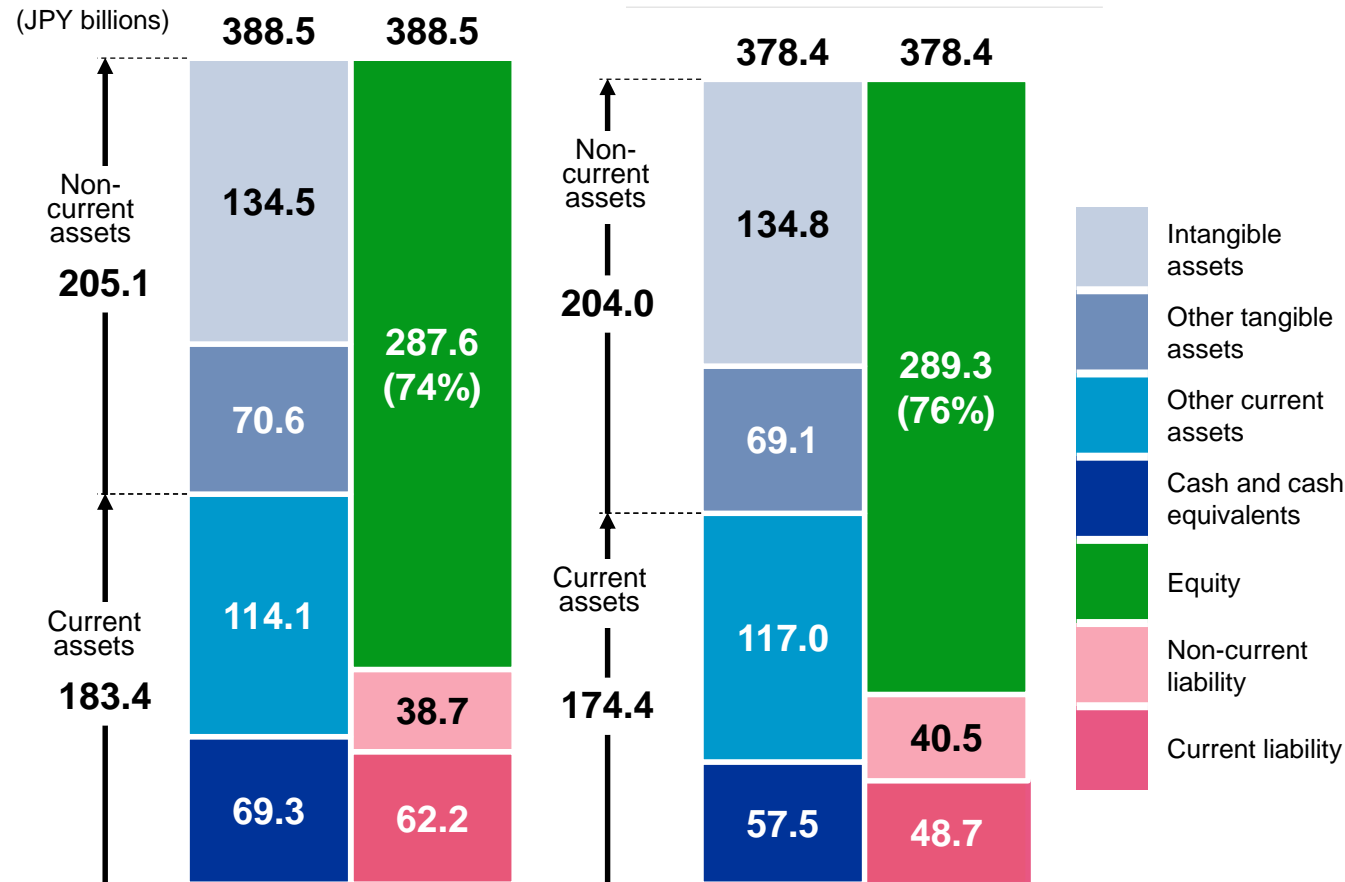
| (JPY billions) | Q1 FY17 | | Q1 FY18 | | YoY |
|--|--------------|------------|--------------|------------|--------------|
| | Actual | vs Revenue | Actual | vs Revenue | |
| Revenue | 55.9 | | 56.5 | | 1.0% |
| COGS | -21.6 | -38.6% | -23.0 | -40.8% | 6.7% |
| SGA expenses | -15.1 | -26.9% | -16.2 | -28.6% | 7.4% |
| R&D expenses | -5.6 | -10.0% | -5.6 | -9.9% | 0.1% |
| Amortization on intangible assets associated with products | -1.7 | -3.0% | -1.7 | -3.1% | 5.0% |
| Other income | 0.1 | 0.1% | 0.1 | 0.2% | 42.9% |
| Other expenses | -0.1 | -0.1% | -0.0 | -0.1% | -52.4% |
| Operating profit (IFRS) | 12.1 | 21.5% | 10.0 | 17.7% | -16.9% |
| Finance income | 0.5 | 0.8% | 0.5 | 0.9% | 10.8% |
| Finance expenses | -0.4 | -0.8% | -1.1 | -1.9% | 149.6% |
| Profit before tax | 12.1 | 21.6% | 9.5 | 16.7% | -21.7% |
| Income tax expenses | -3.1 | -5.5% | -2.6 | -4.6% | -15.2% |
| <i>Actual tax ratio</i> | <i>25.4%</i> | | <i>27.5%</i> | | <i>2.1pt</i> |
| Net profit (IFRS) | 9.0 | 16.1% | 6.9 | 12.1% | -24.0% |
| Core operating profit | 13.7 | 24.5% | 11.7 | 20.7% | -14.8% |
| Core net profit | 10.2 | 18.2% | 8.6 | 15.3% | -15.1% |

Q1 FY2018 Financial Position

March 31, 2018

Jun 30, 2018

Decreased Cash and cash equivalents and current liabilities mainly due to the payment of Income tax, dividends and bonuses



| | March 31, 2018 | June 30, 2018 | Change |
|--------------------------------|----------------|---------------|--------------|
| Non-current assets | 205.1 | 204.0 | -1.1 |
| Property, plant and equipment | 29.7 | 30.6 | 0.9 |
| Intangible assets | 134.5 | 134.8 | 0.3 |
| Financial assets | 35.8 | 34.1 | -1.7 |
| Other | 5.1 | 4.4 | -0.7 |
| Current assets | 183.4 | 174.4 | -8.9 |
| Inventories | 30.6 | 31.8 | 1.2 |
| Trade and other receivables | 78.7 | 80.6 | 1.9 |
| Cash and cash equivalents | 69.3 | 57.5 | -11.8 |
| Other | 4.8 | 4.6 | -0.2 |
| Equity | 287.6 | 289.3 | 1.7 |
| Non-current liabilities | 38.7 | 40.5 | 1.8 |
| Financial liabilities | 3.5 | 3.5 | - |
| Long-term liabilities | 17.7 | 18.6 | 0.9 |
| Deferred tax liabilities | 12.9 | 13.6 | 0.7 |
| Other | 4.6 | 4.9 | 0.2 |
| Current liabilities | 62.2 | 48.7 | -13.6 |
| Trade and other liabilities | 29.7 | 27.1 | -2.6 |
| Other financial liabilities | 14.4 | 11.5 | -2.9 |
| Income tax payable | 7.7 | 2.3 | -5.4 |
| Other | 10.4 | 7.8 | -2.6 |

Q1 FY2018 Segment Revenue

| Segment Revenue | | | | | | | | | |
|--------------------|--------------|--------------|--------|--------------|--------------|--------|--------------|--------------|--------|
| (JPY billions) | Japan | | | Overseas | | | Total | | |
| | Q1 FY2017 | Q1 FY2018 | YoY | Q1 FY2017 | Q1 FY2018 | YoY | Q1 FY2017 | Q1 FY2018 | YoY |
| Pharmaceuticals | 39.7 | 38.0 | -4.1% | 16.3 | 18.4 | 13.3% | 55.9 | 56.5 | 1.0% |
| Prescription | 35.0 | 33.7 | -3.8% | 16.2 | 18.3 | 13.1% | 51.2 | 52.0 | 1.6% |
| Ophthalmic | 34.9 | 33.6 | -3.6% | 16.1 | 18.2 | 13.5% | 50.9 | 51.9 | 1.8% |
| Others | 0.2 | 0.1 | -52.3% | 0.1 | 0.1 | -32.4% | 0.3 | 0.2 | -43.0% |
| OTC | 3.9 | 3.5 | -11.8% | 0.1 | 0.1 | -2.2% | 4.0 | 3.5 | -11.7% |
| Medical devices | 0.6 | 0.6 | 5.6% | 0.0 | 0.0 | 340.4% | 0.6 | 0.7 | 8.3% |
| Others | 0.1 | 0.2 | 107.1% | 0.0 | 0.0 | 626.3% | 0.1 | 0.3 | 126.6% |
| Sales ratio | 70.9% | 67.4% | | 29.1% | 32.6% | | | | |

Capital Expenditures / Depreciation & Amortization

| (JPY billions) | FY2017 | | FY2018 | | |
|--|--------|-----------|--------|-------|-----------|
| | Q1 | Full year | Q1 | | Full year |
| | Actual | Actual | Actual | YoY | Forecast |
| Capital expenditures | 1.0 | 5.4 | 1.3 | 31.4% | 7.5 |
| Depreciation and amortization* | 1.0 | 4.2 | 1.0 | -0.2% | 4.3 |
| Amortization on intangible assets associated with products | 1.7 | 6.7 | 1.7 | 5.0% | 6.9 |
| Intangible assets -Merck products | 1.4 | 5.6 | 1.5 | 5.2% | 5.8 |
| Intangible assets -Ikervis | 0.2 | 0.7 | 0.2 | 5.2% | 0.7 |

*Excludes amortization on intangible assets associated with products and long-term prepaid expenses

Prescription Ophthalmic Market in Japan

| (JPY billions) | Q1 FY2017 | | | | | Q1 FY2018 | | | | | | |
|-----------------|-----------|--------------|--------|--------------|----------------------|-----------|--------------|--------|--------------|----------------------|-------|----|
| | Santen* | | Market | | Santen market share* | Santen* | | Market | | Santen market share* | | |
| | Value | Change (YoY) | Value | Change (YoY) | | Value | Change (YoY) | Value | Change (YoY) | | | |
| Total | 41.4 | 6.5% | 90.4 | 4.3% | 45.8% | #1 | 42.9 | 3.6% | 91.7 | 1.5% | 46.8% | #1 |
| Glaucoma | 9.2 | -2.2% | 29.3 | 0.5% | 31.4% | #1 | 8.9 | -3.6% | 28.7 | -1.9% | 30.9% | #1 |
| Anti-VEGF | 15.1 | 14.6% | 21.1 | 14.1% | 71.5% | #1 | 16.8 | 11.1% | 23.3 | 10.2% | 72.1% | #1 |
| Corneal/dry eye | 7.3 | 3.0% | 11.7 | 3.5% | 62.5% | #1 | 7.0 | -4.3% | 11.4 | -3.2% | 61.7% | #1 |
| Allergy | 4.1 | 20.9% | 8.9 | 8.8% | 46.4% | #1 | 5.1 | 22.9% | 10.0 | 13.1% | 50.4% | #1 |
| Anti-infection | 1.5 | -13.0% | 3.7 | -4.2% | 41.3% | #1 | 1.3 | -18.3% | 3.4 | -7.1% | 36.4% | #1 |

Jul 1, 2017 - Jun 30, 2018

| | Santen* | | Market | | Santen market share* | |
|-----------------|---------|--------------|--------|--------------|----------------------|----|
| | Value | Change (YoY) | Value | Change (YoY) | | |
| Total | 169.4 | 6.0% | 364.6 | 4.4% | 46.5% | #1 |
| Glaucoma | 35.6 | -2.8% | 114.4 | -0.1% | 31.1% | #1 |
| Anti-VEGF | 62.9 | 12.6% | 87.4 | 13.4% | 72.0% | #1 |
| Corneal/dry eye | 28.7 | -0.1% | 46.3 | 0.8% | 62.0% | #1 |
| Allergy | 21.5 | 26.9% | 44.0 | 14.4% | 48.7% | #1 |
| Anti-infection | 5.3 | -14.7% | 13.6 | -5.4% | 38.8% | #1 |

*Including co-promoted product (Anti-VEGF *Eylea*) of Bayer Yakuhin, Ltd.(MAH)

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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 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.

The logo for Santen features a stylized 'S' in a light blue color, followed by the word 'Santen' in a bold, dark blue sans-serif font.

A Clear Vision For Life™