

Investor Meeting on Q2 FY2017 Results



Akira Kurokawa

President & CEO

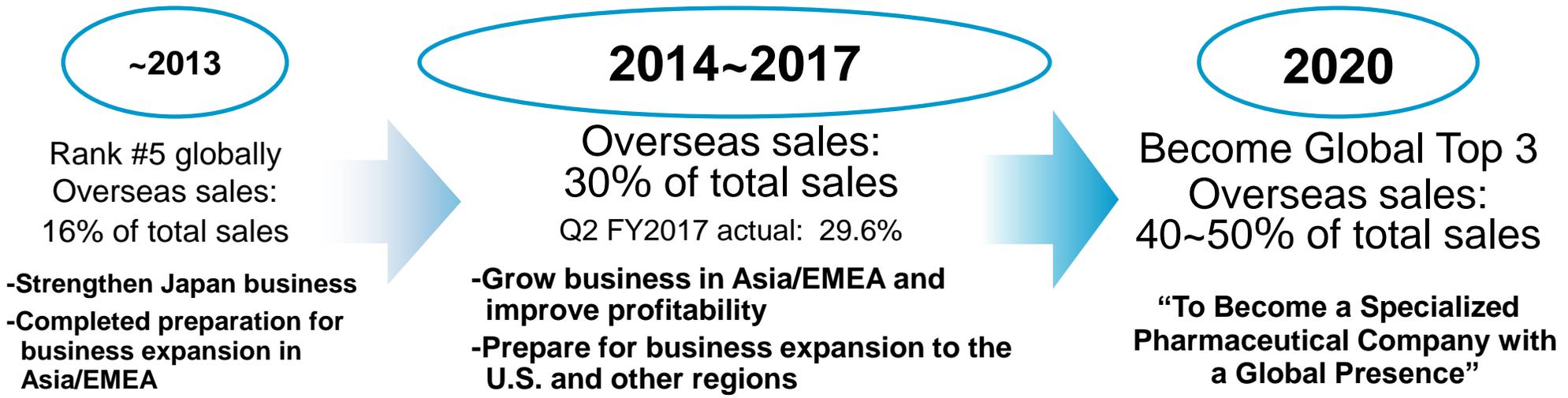
November 2017

天機に参与する

Tenki ni sanyo suru

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.

To Become a Specialized Pharmaceutical Company with a Global Presence



Current Mid-Term Plan (MTP)

	Plan	Results
Product Development	<ul style="list-style-type: none"> -Transform product development to realize enhanced productivity and achieve sustained growth -Active investment in sustainable growth 	<ul style="list-style-type: none"> -Approval, Launch: <i>Tapcom, Ikervis</i> -Development: progress of DE-109, 117, 122 -Licensing, Acquisition: DE-126, 128
Business Expansion	<ul style="list-style-type: none"> -Grow business in Asia/EMEA and strengthen market presence by entering into new markets 	<ul style="list-style-type: none"> -Raised new products sales ratio in Japan: from 44% (FY13) to 71% (FY16) -Growth in market share of OTC products in Japan -Strengthened internal sales platform in Asian countries -Grew the number EMEA countries with sales
Organization and Talent	<ul style="list-style-type: none"> -Develop talent and organization to realize sustained growth and strengthen the global management system 	<ul style="list-style-type: none"> -Introduced new HR appraisal system -Held training aimed at nurturing the next generation of employees / managers

Q2 FY2017 Financial Results ended September 30, 2017

Q2 FY2017 Financial Highlights

Revenue and profit both achieve strong growth

Higher revenue and profit as revenue growth both in Japan and overseas outpaced increases in SG&A and R&D expenses

◆ Revenue: **110.8 bil yen, up 13.2% (YoY)**

- Japan pharma 68.5 bil yen (+6.9%), OTC 7.6 bil yen (+25.3%)
- Asia 15.6 bil yen (+28.3%), EMEA 17.1 bil yen (+30.8%)

◆ Operating profit: **Core basis 24.4 bil yen, up 8.6% (YoY); IFRS 21.0 bil yen, up 12.0% (YoY)**

	(JPY billions)		FY2017			
	FY2016	Q2 actual	Q2 actual	YoY	Full year forecast	vs FY forecast
Core basis						
Revenue		97.8	110.8	13.2%	218.0	50.8%
COGS		-36.8	-43.0	16.7%	-81.0	53.1%
Gross margin		61.0	67.8	11.2%	137.0	49.5%
SGA		-28.2	-31.7	12.2%	-68.0	46.6%
R&D expenses		-10.3	-11.7	13.9%	-25.0	47.0%
OP		22.5	24.4	8.6%	44.0	55.4%
Net profit		16.8	17.9	6.9%	31.2	57.4%
IFRS						
OP		18.8	21.0	12.0%	37.4	56.3%
Net profit		12.5	15.2	21.9%	26.8	56.9%
USD		105.86	111.18	-5.0%	110.00	-1.1%
EUR		118.59	126.76	-6.9%	120.00	-5.6%
CNY		16.04	16.43	-2.4%	16.50	0.4%

Notes:

Santen results herein describe Q2 results cumulatively as the six month period ended September 30, 2017

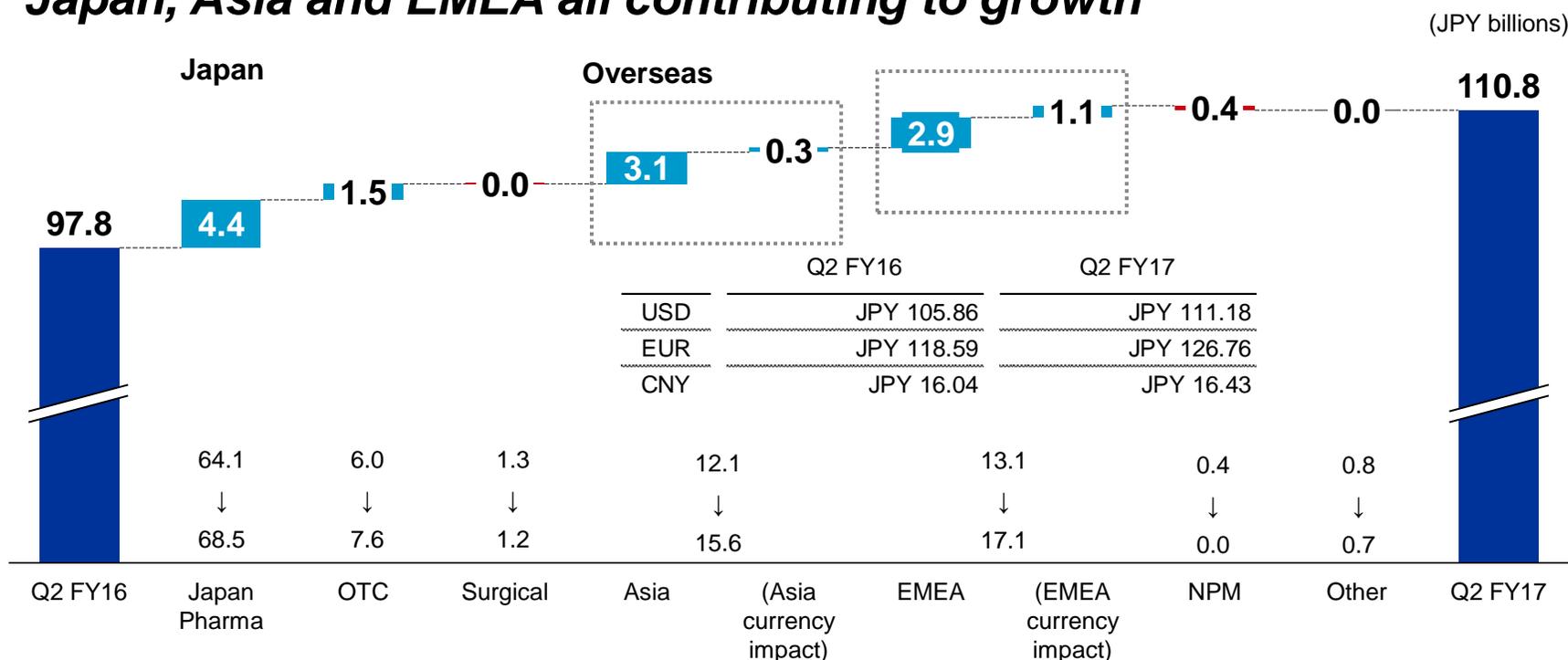
Q2 FY16 IFRS-basis net profit has been adjusted downward from prior announced results by 0.1 bil yen upon the finalization of the purchase price allocation relating to the acquisition of InnFocus.

+: JPY appreciation, -: JPY depreciation

Q2 FY2017 Revenue



Japan, Asia and EMEA all contributing to growth



Japan business

Japan pharma Revenue growth of new products, such as *Eylea*, *Alesion* and *Diquas*, helped boost overall revenue +6.9%

OTC In addition to inbound sales, good progress in new products and sales promotion for Japanese consumers added to +25.3% revenue growth

Surgical Promoting sales activities cooperating with Japan pharma business

Overseas business

Asia Overall growth of +28.3% (JPY) due to continuous growth in China and Korea, and significant progress in ASEAN market +43.7% (JPY)

EMEA Growth of acquired MSD products and *Ikervis* helped boost revenue +30.8% (JPY)

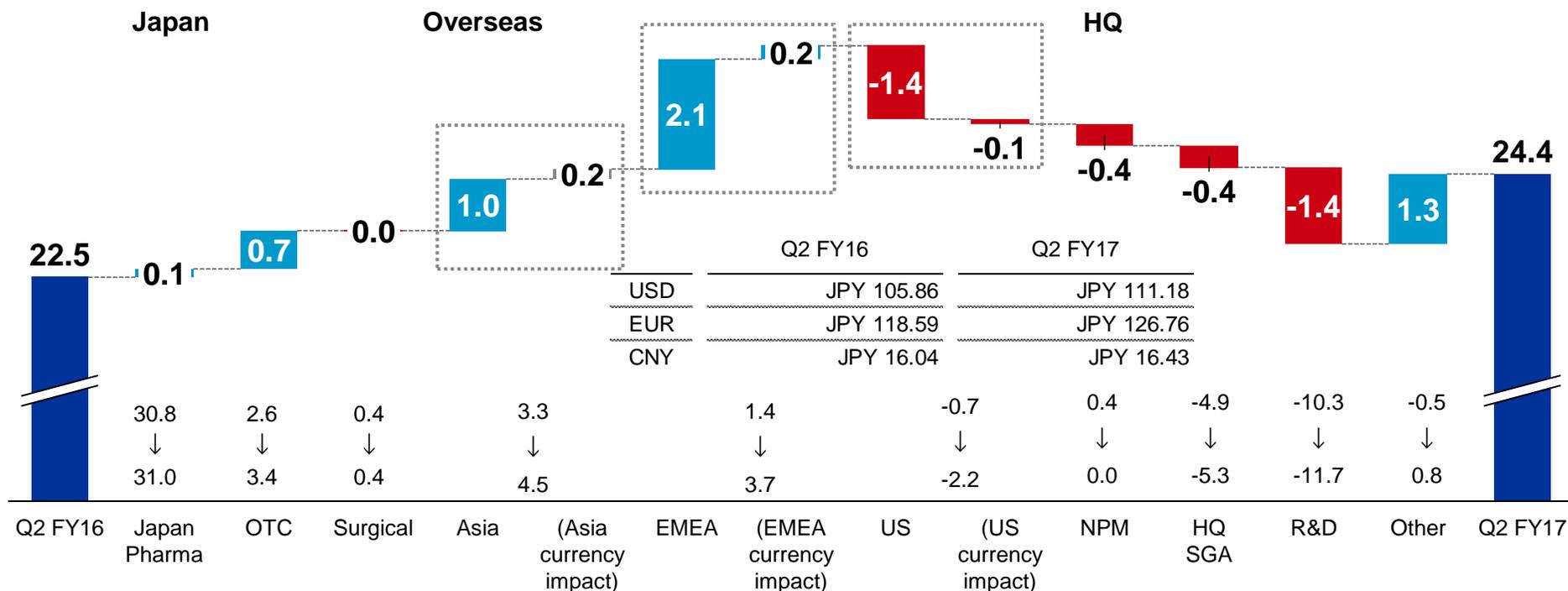
NPM Negligible NPM receipts after the completion of MA transfers from MSD

Q2 FY2017 Core Operating Profit



Overseas operations drive high growth

(JPY billions)



Japan business

Japan pharma	Decline reflects transitory factor that lowered COGS in same period of prior year
OTC	Overall higher with revenue growth
R&D expenses	Higher expenses due to pipeline progress (DE-117, 122, 126, 128)

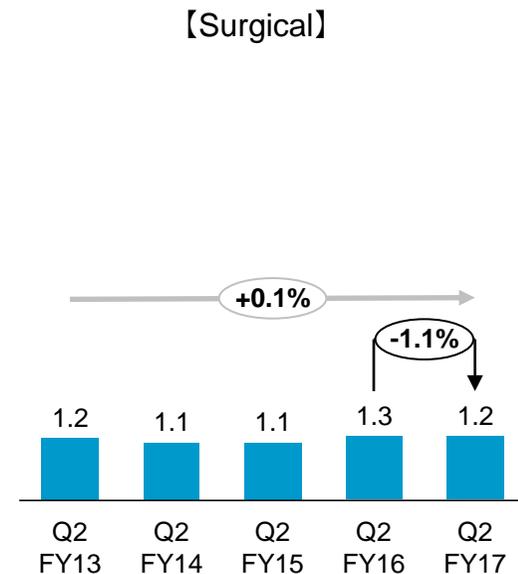
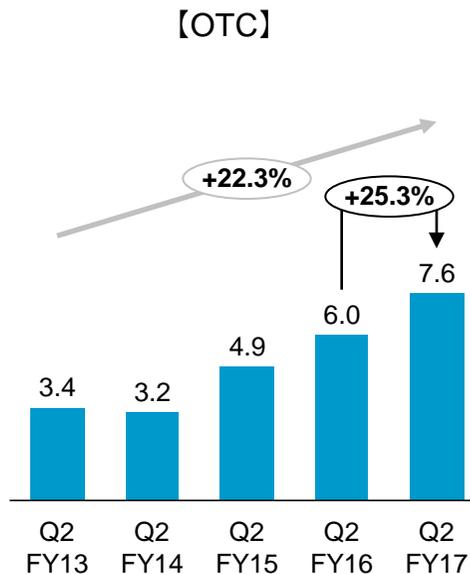
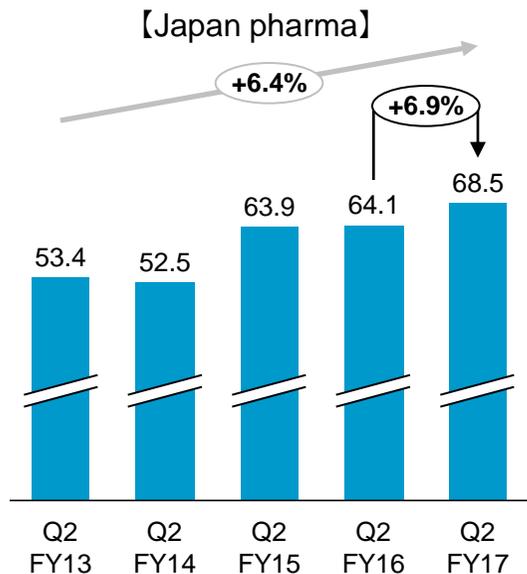
Overseas business

Asia	Higher with revenue growth and expense management
EMEA	
US	Mainly due to increase in expenses in preparation for US entry

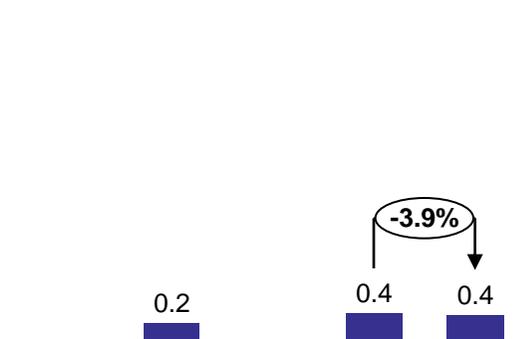
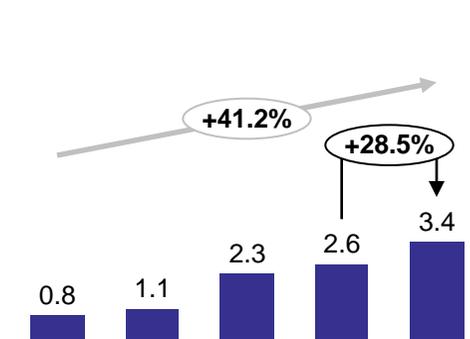
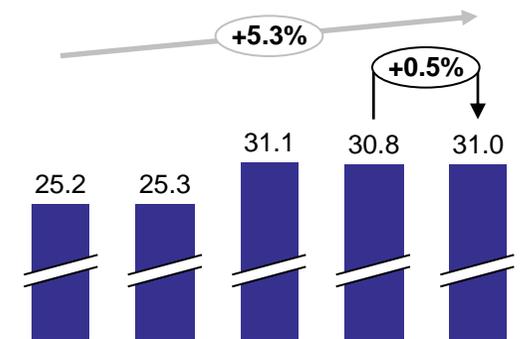
Performance by Business (Japan)

(JPY billions, CAGR%)

Sales



OP
before R&D



Increase in revenue on sales of new products, such as *Eylea*; While Q2 profit growth rate lower due to a transitory factor in prior period, working to raise profit growth on a full-year basis by focusing on high-profit products such as *Alesion*

FX series (inbound and domestic sales), *Beuteye* (inbound sales), and good progress of new products launched in prior autumn; Now focused on capturing both overseas and domestic demand for future growth

Focusing on collaboration initiatives with Japan pharma business to increase revenue and profit

Performance by Business (Asia)

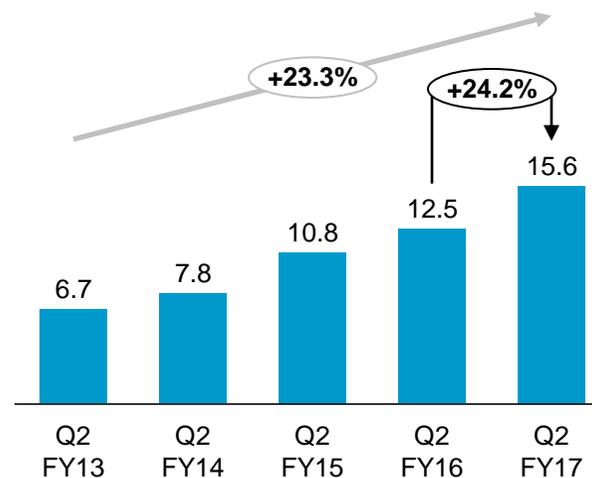
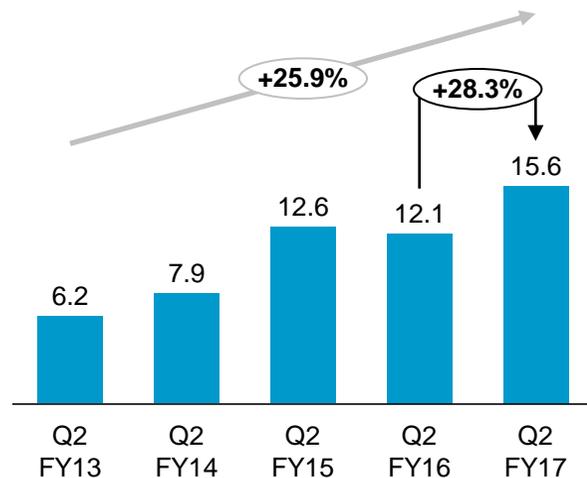
(JPY billions, CAGR%)

Japan yen basis

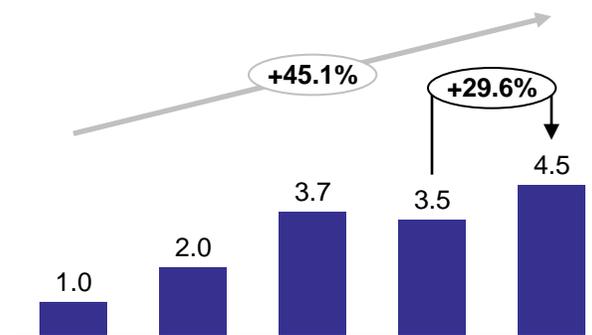
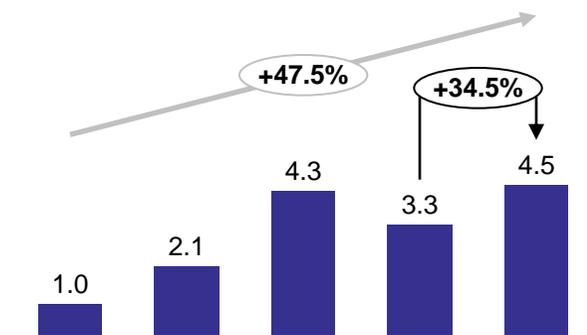
Local currency basis

(Conversion with Q2FY17 rate for all FY)

Sales



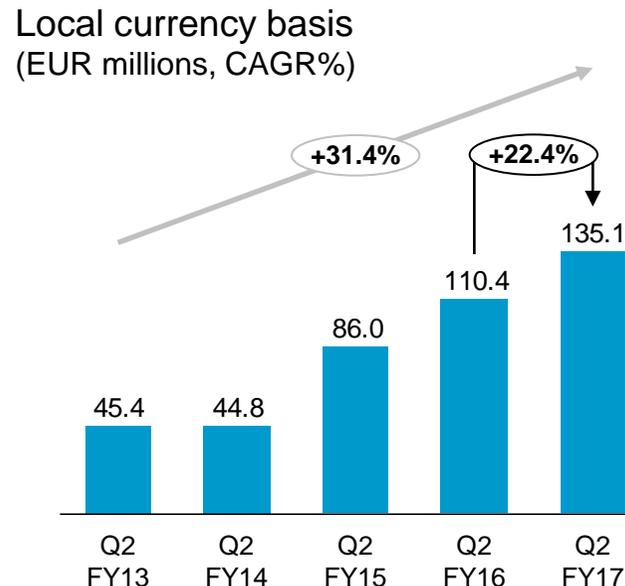
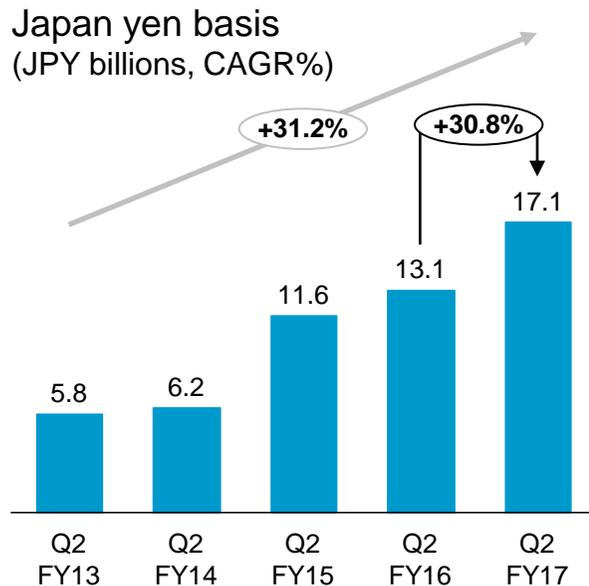
OP
before R&D



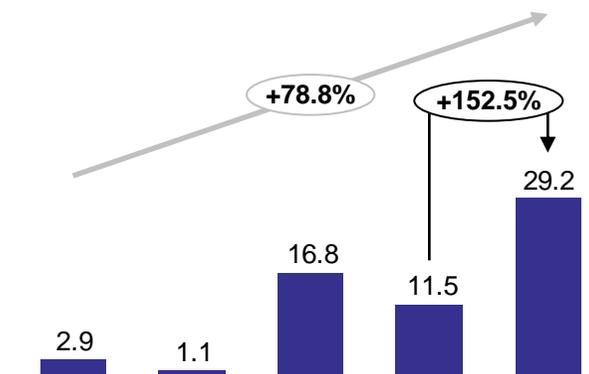
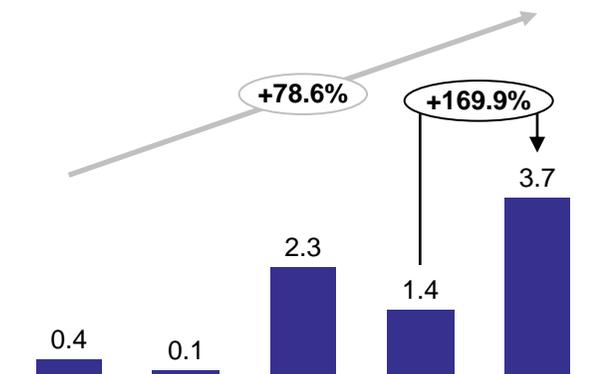
Good market penetration progress of products particularly in China, Korea, Vietnam and other countries;
With our strengthening business platform, we are planning continuous growth both in existing markets and new markets with gross margin improvement exceeding additional investments

Performance by Business (EMEA)

Sales



OP before R&D



Continuous good market penetration of both Santen and acquired MSD products in the glaucoma area (YoY: *Cosopt* +16.9%, *Tapros*, +18.4%, *Trusopt* +12.1%); *Ikervis* growth YoY: +123.6%; Growing presence in Russia and other emerging markets

FY2017 P&L Forecast (No change from May 10)

Core basis **Revenue:** Growth forecast in all businesses, particularly overseas
Operating profit: Increased spending on future growth (listed below), while also strengthening cost control systems. OP is forecast to increase.

- Investments in pipeline progress and the maximization of product value
- Investments in US entry preparation

IFRS Amortization on intangible assets associated with products is not expected to change substantially and, excluding non-recurring items, core results to grow in proportion with revenue

Notes:
 There is no significant difference between Santen estimates at the start of FY17 and actual progress of earnings.
 While the yen weakened more than expected at the start of FY17, the financial impact from this FX rate change is not material.

➡ As a result, no change in FY17 P&L forecast from May 10

(JPY billions)	FY2016		FY2017		Original MTP	vs MTP
	Actual	Forecast	YoY			
Core basis						
Revenue	199.1	218.0	9.5%		205.0	6.3%
COGS	-75.0	-81.0	8.1%			
SGA	-61.7	-68.0	10.3%			
R&D expenses	-22.8	-25.0	9.7%			
Operating profit	39.7	44.0	10.9%		51.5	-14.6%
Net profit	29.2	31.2	6.9%		35.0	-10.9%
ROE	11.3%	12.3%	1.0pt		14.0%	-1.7pt
IFRS						
Operating profit	32.5	37.4	15.2%			
Net profit	21.7	26.8	23.4%		31.0	-13.5%
ROE	8.4%	10.6%	2.2pt		13.0%	-2.4pt
USD	108.64	110.00			103.00	
EUR	118.96	120.00			141.00	
CNY	16.14	16.50			16.90	

FY2017 Dividends Forecast (No change from May 10)

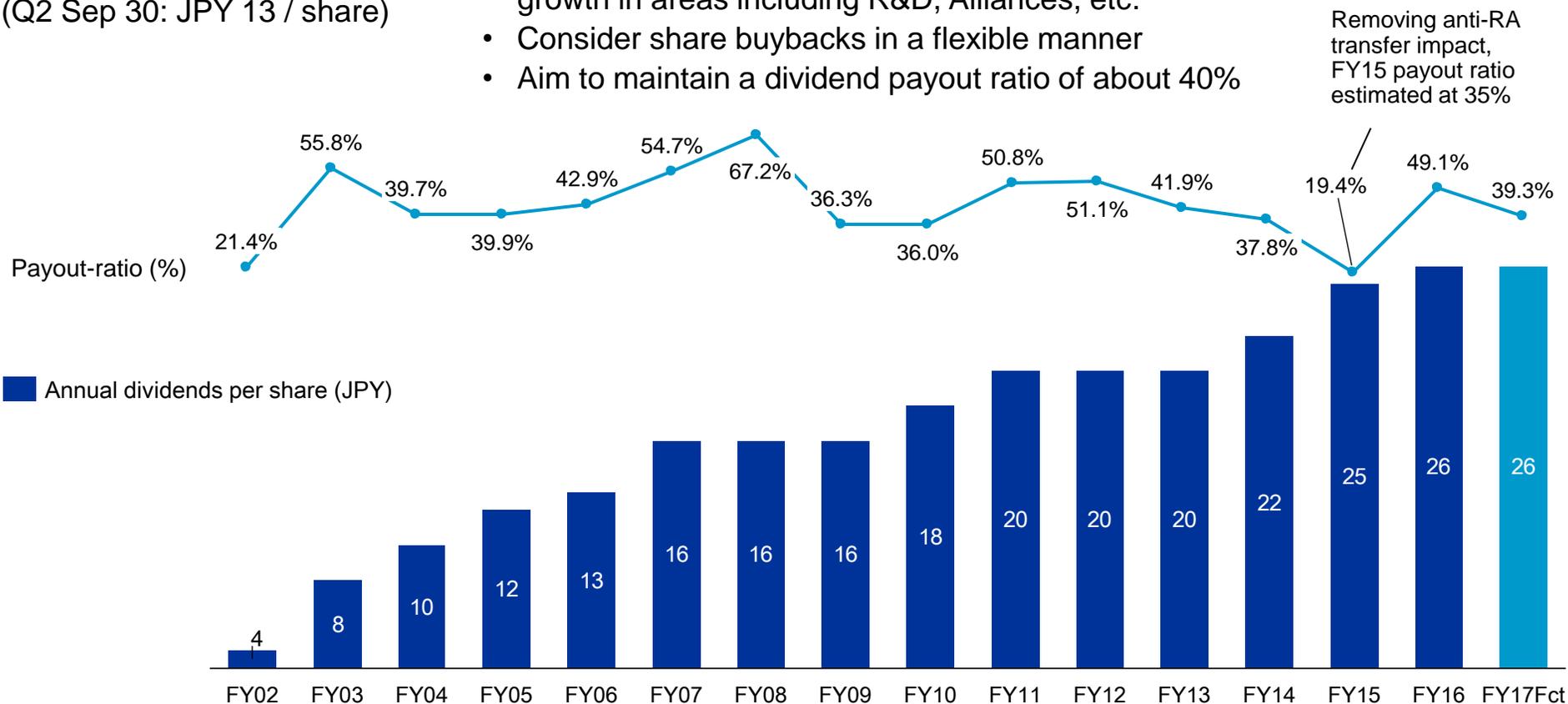
Annual Dividends

FY2016: JPY 26 / share

FY2017 forecast: JPY 26 / share
(Q2 Sep 30: JPY 13 / share)

FY2014-FY2017 Shareholder Return Policy

- Stable and sustained return to shareholders
- Maintain financial position to enable investments in future growth in areas including R&D, Alliances, etc.
- Consider share buybacks in a flexible manner
- Aim to maintain a dividend payout ratio of about 40%



Share buyback (b yen)	3.2	-	2.6	-	-	4.8	-	-	-	-	13.7	-	-	-	12.3	-
Total return	59.1%	55.6%	62.8%	39.9%	42.9%	92.3%	67.2%	36.4%	36.4%	50.8%	134.4%	41.9%	37.8%	19.4%	99.5%	39.3%

* 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.

Reference

Q2 FY2017 Profit / Loss

(JPY billions)	Q2 FY16		Q2 FY17		YoY
	Actual	vs Revenue	Actual	vs Revenue	
Revenue	97.8		110.8		13.2%
COGS	-36.8	-37.7%	-43.0	-38.8%	16.7%
SGA expenses	-28.7	-29.4%	-31.7	-28.6%	10.2%
R&D expenses	-10.3	-10.5%	-11.7	-10.6%	13.9%
Amortization on intangible assets associated with products	-3.2	-3.2%	-3.3	-3.0%	4.9%
Other income	0.2	0.2%	0.2	0.2%	-7.3%
Other expenses	-0.2	-0.2%	-0.2	-0.2%	5.5%
Operating profit (IFRS)	18.8	19.2%	21.0	19.0%	12.0%
Finance income	0.4	0.5%	0.5	0.4%	11.6%
Finance expenses	-2.4	-2.4%	-0.9	-0.8%	-63.8%
Profit before tax	16.9	17.3%	20.7	18.7%	22.5%
Income tax expenses	-4.4	-4.5%	-5.4	-4.9%	24.3%
<i>Actual tax ratio</i>	<i>25.9%</i>		<i>26.3%</i>		<i>0.4pt</i>
Net profit (IFRS)	12.5	12.8%	15.2	13.8%	21.9%
Core operating profit	22.5	23.0%	24.4	22.0%	8.6%
Core net profit	16.8	17.1%	17.9	16.2%	6.9%

SGA increases:

- Japan pharma 0.2, OTC 0.2 bil yen,
- Asia 1.4 bil yen, EMEA 0.6 bil yen, US 1.1 bil yen
- HQ admin 0.4 bil yen

(Above are within budget at start of fiscal year)

- Change caused by higher profit before tax amount

	Q2 FY16	Q2 FY17
USD	JPY 105.86	JPY 111.18
EUR	JPY 118.59	JPY 126.76
CNY	JPY 16.04	JPY 16.43

Adjustments to prior announced Q2 FY16 P&L upon finalization of the purchase price allocation relating to the acquisition of InnFocus (JPY billions):

- (1) Finance expense: -2.20 → -2.35 (-0.15)
- (2) Income tax expense: -4.42 → -4.38 (+0.05)
- (3) Net profit: -12.50 → -12.60 (-0.10)

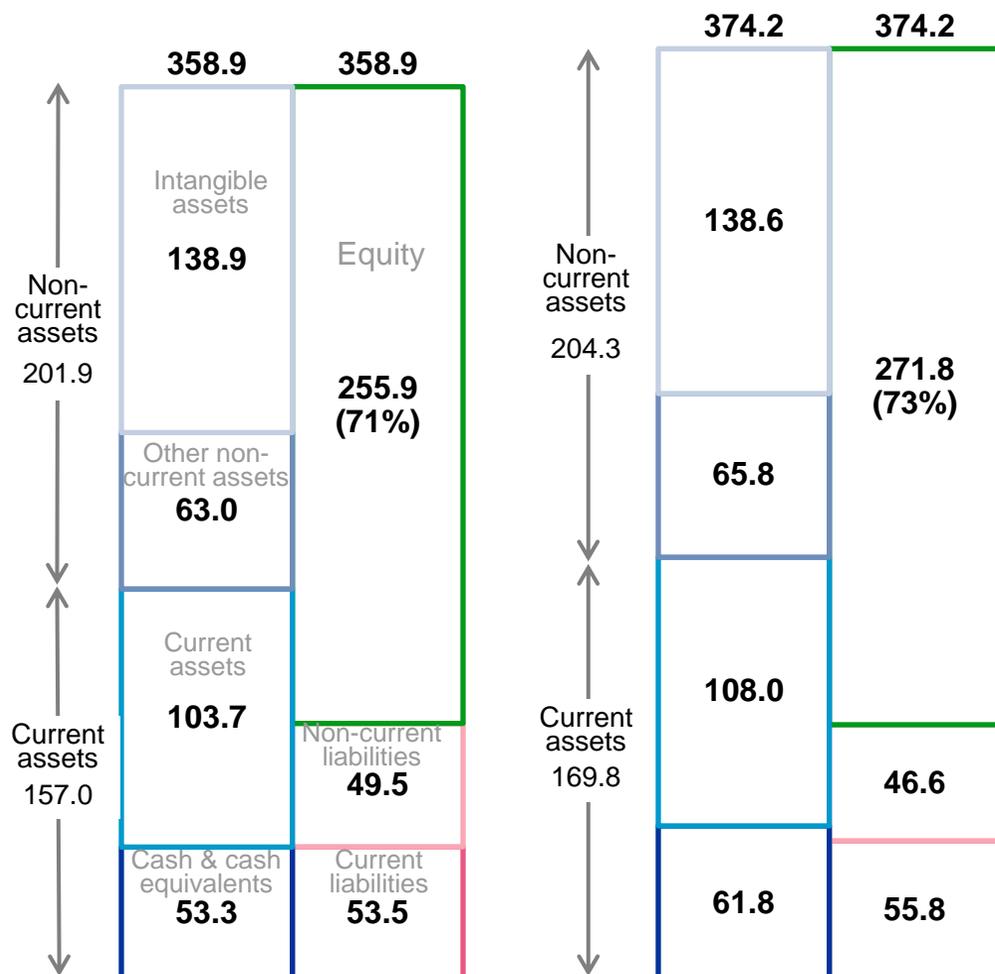
Q2 FY2017 Financial Position

March 31, 2017

Sep 30, 2017

(JPY billions)

Increased cash and cash equivalents mainly due to cash payment timing



	March 31, 2017			Sep 30, 2017	Change
	Before PPA	After PPA			
Total assets	322.8	358.9	36.1	374.2	15.3
Non-current assets	165.8	201.9	36.1	204.3	2.5
Property, plant and equipment	28.6	28.6	-	29.4	0.8
Intangible assets	102.8	138.9	36.1	138.6	-0.4
Financial assets	29.9	29.9	-	31.9	2.0
Other	4.5	4.5	-	4.5	0.0
Current assets	157.0	157.0	-	169.8	12.8
Inventories	28.5	28.5	-	28.1	-0.4
Trade and other receivables	71.0	71.0	-	74.8	3.9
Cash and cash equivalents	53.3	53.3	-	61.8	8.5
Other	4.2	4.2	-	5.1	-0.8
Equity	253.9	255.9	2.0	271.8	15.9
Non-current liabilities	15.5	49.5	34.0	46.6	-2.9
Financial liabilities	7.6	7.6	-	4.7	-2.9
Deferred tax liabilities	2.6	18.0	15.4	17.8	-0.2
Other	5.3	23.9	18.7	24.1	0.2
Current liabilities	53.4	53.5	0.0	55.8	2.3
Trade and other liabilities	23.9	23.9	-	26.4	2.5
Other financial liabilities	17.6	17.6	0.0	14.3	-3.3
Income tax payable	3.3	3.3	-	6.1	2.8
Other	8.6	8.6	-	9.0	0.3

Q2 FY2017 Segment Revenue

Q2 FY17 Segment Revenue

(JPY billions)	Japan		Overseas		Total	
	Revenue	YoY	Revenue	YoY	Revenue	YoY
Pharmaceuticals	76.5	8.7%	32.8	26.3%	109.3	13.4%
Prescription	68.9	7.1%	32.6	26.0%	101.5	12.6%
Ophthalmic	68.5	6.9%	32.4	29.2%	101.0	13.1%
Others	0.4	104.0%	0.2	-75.0%	0.6	-41.7%
OTC	7.6	25.3%	0.2	178.7%	7.7	26.7%
Others	1.5	2.0%	0.0	-48.0%	1.5	-0.4%
Medical devices	1.2	-1.1%	0.0	34.0%	1.3	-0.7%
Others	0.2	21.6%	0.0	-65.9%	0.3	1.3%
Total	78.0	8.6%	32.8	26.1%	110.8	13.2%
Sales ratio	70.4%		29.6%			

Capital Expenditures / Depreciation & Amortization

(JPY billions)	FY2016		FY2017		
	Q2	Full year	Q2		Full year
	Actual	Actual	Actual	YoY	Forecast
Capital expenditures	2.9	5.2	2.7	-4.6%	7.7
Depreciation and amortization*	1.7	3.5	2.1	23.5%	3.8
Amortization on intangible assets associated with products	3.2	6.4	3.3	4.9%	6.6
Intangible assets -Merck products	2.6	5.4	2.8	4.3%	5.6
Intangible assets -Ikervis	0.3	0.7	0.4	6.9%	0.7

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

Prescription Ophthalmic Market in Japan

JPY billions	Q2FY16						Q2FY17					
	Santen*		Market		Santen		Santen*		Market		Santen	
	Value	Change (YoY)	Value	Change (YoY)	market share*	No.1	Value	Change (YoY)	Value	Change (YoY)	market share*	No.1
Total	76.8	4.6%	169.3	0.1%	45.4%	No.1	81.8	6.4%	177.5	4.9%	46.1%	No.1
Glaucoma	18.7	1.4%	57.7	2.9%	32.3%	No.1	18.3	-1.9%	58.3	1.0%	31.4%	No.1
Anti-VEGF**	26.4	15.5%	36.6	-1.5%	72.3%	No.1	30.4	15.0%	42.3	15.8%	71.8%	No.1
Corneal/dry eye	14.2	-2.6%	22.7	-0.9%	62.8%	No.1	14.7	3.0%	23.5	3.5%	62.5%	No.1
Allergy	6.2	31.6%	14.5	11.1%	42.9%	No.1	7.4	18.8%	15.6	7.9%	47.3%	No.1
Anti-infection	3.5	-20.9%	7.8	-10.7%	44.9%	No.1	3.1	-12.8%	7.4	-4.4%	41.0%	No.1

Oct 1, 2016 - Sep 30, 2017

	Santen*		Market		Santen	
	Value	Change (YoY)	Value	Change (YoY)	market share*	No.1
Total	162.3	3.9%	353.8	1.8%	45.9%	No.1
Glaucoma	36.4	-1.5%	114.9	0.6%	31.7%	No.1
Anti-VEGF**	57.9	10.3%	80.2	8.5%	72.1%	No.1
Corneal/dry eye	28.9	-0.2%	46.3	0.3%	62.5%	No.1
Allergy	17.4	20.0%	38.9	4.5%	44.7%	No.1
Anti-infection	6.0	-17.6%	14.2	-8.1%	42.0%	No.1

*Including co-promoted products

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

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Status of Research & Development Q2 FY2017



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

Senior Corporate Officer

Chief Scientific Officer (CSO)

Head of Global Research & Development

Pipeline / Product Development Status (1)



	Indication	Region	Status	As of November 1, 2017
DE-117 EP2 receptor agonist	Glaucoma / ocular hypertension	US	P2	
		Japan	<u>P2b/3</u> (<u>AYAME</u> pivotal study met primary endpoint) <i>Plan: Q3 FY17 filing</i>	
		Asia	P3 <i>Plan: 2nd half FY2018 P3 completion</i>	
DE-126 FP/EP3 dual receptor agonist	Glaucoma / ocular hypertension	US	P2b	
		Japan	<i>Plan: Jan~Jun 2018 P2b completion</i>	
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	Filed <i>Plan: Dec 24, 2017 PDUFA date, Jan~Jun 2018 launch</i>	
		Japan	P3	
		Europe	P3 <i>Plan: 2nd half FY2017 re-filing</i>	
		Asia	Filed	
DE-122 Anti-endothelin antibody	Wet age-related macular degeneration	US	P2a* (<u>Completed P1/2</u>) <i>Plan: Jan~Jun 2019 P2a completion</i>	

Pipeline / Product Development Status (2)



As of November 1, 2017

	Indication	Region	Status
DE-089 <i>Diquas</i>	Dry eye	China	<u>Approved</u> <i>Plan: <u>FY2018 launch</u></i>
DE-114A epinastine HCl (high dose)	Allergic conjunctivitis	Japan	P3
Cyclokat <i>Ikervis</i> ciclosporin	Severe keratitis in patients with dry eye	Asia	Approved
		US	P2
		Others	Filed
Vekacia <i>Verkazia</i> Ciclosporin	Vernal kerato- conjunctivitis	Europe	Filed (received positive CHMP opinion)
DE-127 <u>atropine sulfate</u>	<u>Myopia</u>	<u>Asia</u>	<u>Preparing P2</u>

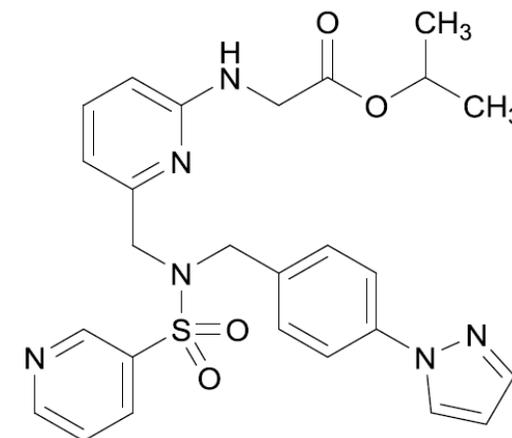
Reference

Plan to file in Japan in Q3 FY2017

- ◆ Novel mechanism unique from prostaglandin analogues
- ◆ AYAME (pivotal study) met primary endpoint

To present the detail of results in major academic meeting in FY2018

Trial No.	NCT02623738
Study title	A study assessing the efficacy and safety of DE-117 ophthalmic solution in subjects with primary open angle glaucoma or ocular hypertension -AYAME study-
Enrollment	304
Phase	Phase P2b/3
Indication	Primary open angle glaucoma / ocular hypertension
Primary endpoint	Intraocular pressure at week 4
Study arms	<ul style="list-style-type: none"> • Placebo ophthalmic solution • DE-117 ophthalmic solution low • DE-117 ophthalmic solution high • Latanoprost ophthalmic solution 0.005%



Omidenepag isopropyl
(EP2 receptor agonist)

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' on the left, composed of two overlapping curved shapes in light blue and dark blue. To the right of the 'S' is the word 'anten' in a bold, dark blue, sans-serif font. The 'S' and 'a' are connected, with the light blue part of the 'S' overlapping the 'a'.

Santen

A Clear Vision For Life