

**CEO Small Meeting
(December 3, 2020)**

Q&A Summary

Mid- to Long-term Growth Scenarios by Region

Q: Please discuss your growth prospects by region in more detail, including the time horizon.

A: EMEA should show steady growth. Our mid- to long-term target is to achieve a business scale of around ¥50 billion. We have similar expectations for Asia, although the current scale of the Asia business is smaller than EMEA, reflecting the fact that it is at an earlier stage of development. For China, the recent Value-Based Purchasing (VBP) may lead to a slight delay in our growth scenario. To mitigate short-term declines, we will focus on private sector hospitals. We aim to achieve a business scale of ¥50 billion by expanding sales channels and accelerating the development of new products. For the U.S., we are targeting a business scale of ¥50 billion in the medium term. Over the long term, we aim to achieve a business scale of ¥100 billion.

Q: Will Santen be able to maintain revenue levels given expirations of Japanese patents?

A: Our primary objective is to maintain the current profit level. To achieve this, we will do our best to maintain the level of sales. We are already preparing for patent expirations, including some non-disclosed expiries. We recognize that achieving substantial growth may be challenging given products with expiring patents account for 50% of Rx. However, we are exploring line extensions for ROCK inhibitors and others. We intend to capitalize on Japanese market potential by developing the OTC, wellness, and out of pocket (non-reimbursable treatments) markets into growth drivers.

Q: What is your mid- to long-term image of profits? Will the priority be on sales to improve your market presence, or will you focus on profitability? I believe the alliance and out of pocket market business models generate lower margins than your traditional business, which suggests growth in these categories will depress overall margins. Please discuss your view.

A: My priority is to improve profit margins in the medium term. The current issue is that certain parts of the organization have become inefficient as a result of expansion efforts as we lay the foundation for globalization. We expect the ramp-up of the U.S. business and increased sales in Asia to improve the productivity of the workforce and enhance profitability. At Santen, we are always focused on improving profitability.

With regard to maintaining profitability over the long term, and whether margins are better for the out of pocket or Rx markets, I think margins are a function of how one approaches the business. The insurance reimbursement business is stable, but is subject to annual downward drug price revisions. The profitability of the out of pocket business will depend on how it is approached. In thinking about this market, we are certainly looking at the high price points and high margins that are generated in cell therapy and gene therapy. Focusing solely on the Rx market is challenging from the standpoint of profitability. We would like to ensure solid profitability by focusing on out of pocket treatments, and brand and quality differentiation in countries where there is strong patient demand.

U.S. business

Q: Regarding developments in the U.S., Santen acquired Eyevance and plans to launch DE-128. Please discuss your expectations for the direction of the U.S. business.

A: Our objective in acquiring Eyevance was make an acquisition that would allow us to reach critical mass in business scale and shorten the time line for achieving profitability. We aim to build on the existing product

categories and Eyevance's MRs, by layering on new products. Our first priority is to put the U.S. business into the black as quickly as possible, and then to expand sales using Eyevance as a base. We will seek growth by adding new products while maintaining profitability. We see the framework as follows: Eyevance will be the base for ethical products, while Glaukos will sell DE-128, and Santen will be responsible for marketing and market access.

Q: My understanding is that projected peak sales of DE-128 in the U.S. will be US\$200M. Has there been any change to your view? What is your image for the launch cadence?

A: We have not changed our revenue projections. We will review our projection when we have better visibility for approval and insurance reimbursement.

Q: When do you expect Eyevance to turn profitable?

A: As a business, Eyevance is currently in a development phase. On an organic basis, we would expect it to achieve profitability in the next few years. However, our most recent goal is to achieve profitability within 1-2 years through the addition of in-house and in-licensed products.

Q: Is growth in the U.S. business more likely to be driven by in-licensed products than in-house products?

A: There are currently no specific products beyond what is visible at this time, but we intend to develop this into a ¥100 billion business over the long term. Currently, our image of the split between in-house products, such as DE-117, DE-126, DE-128, and in-licensed products, including Eyevance products, is roughly 50:50.

China and Asia businesses

Q: Given the expected decrease in *Cravit* sales due to VBP, what is the impact on your resources in China?

A: We will divert resources to *Tapros* and *Diquas* and to our new products. We are working to maintain our presence in the field.

Q: I think that *Hyalein* may be impacted by VBPs going forward. Do you expect your future growth to be driven by new drugs? To what extent should we factor in the impact of VBPs?

A: We do believe that some impact from VBPs should be factored in for *Hyalein*, but even if *Hyalein* become subject to a VBP we wouldn't expect sales to completely go away. Sales will decline temporarily, but we aim to grow by focusing on markets other than those subject to VBPs. The key will be how quickly we can recover from the negative sales impact of a VBP.

Q: In the China business, I think that the stronger the product, the higher the risk of a VBP. This suggests that new products would also be at risk for a VBP if scale becomes significant. Given this, is this still a market where you want to launch new products? How should we view your China business in the short- to medium-term?

A: We recognize that China is a market where there is possibility that sales could decline sharply at some stage, although it is different than a patent cliff. As such, there is a need to transform the business structure. If we were to launch products in China that have been developed in a developed country, there is a risk that the product could be targeted for a VBP before we are able to fully recoup our investment. One choice could be to start development in China from an early stage. This would probably necessitate partnerships with online dispensaries and private sector insurance by leveraging the value dossier, or other ways of providing value. Patients are prepared to pay for high quality products so out of pocket treatment or self-medication could also be a major source of income. Santen's eye drops, at 20-30 RMB, are not expensive. It is still too early to discuss specific numbers at this time, but we are focused on transforming our business to ensure continued growth over time.

Q: With regard to expanding markets in China and Asia, what can manufacturers do to raise awareness of diseases or to boost diagnosis rates?

A: Historically, we have been involved in measures to increase the number of ophthalmologists and enhance the quality of care. We have been providing scholarships in China for close to 20 years. We also provide educational training for young doctors and support for local doctors. The number of ophthalmologists in China has increased by 5,000 - 6,000 compared to 10 years ago. On a per capita basis, this is still only one-fifth of the level in Japan, but the quality of care will improve through the increase in the absolute number of ophthalmologists and support for the development of academic societies. In addition, we can provide training for ophthalmological support staff. Support for optometrists can improve the productivity of ophthalmologists. We are engaged in grass roots efforts to support qualitative and quantitative improvements. We are also promoting disease awareness through ophthalmologists as well as direct outreach to the general public, in keeping with the local regulatory framework in each country.

Other

Q: Please discuss some of your new learnings since becoming CEO.

A: In formulating the Long-term Vision, we had already anticipated structural changes in medicine. However, as a result of COVID-19, I believe the pace of change has accelerated. We need to redefine the strengths of our products and sales model. To date, our business had been focused primarily on insurance reimbursement, and our strength had been the solid foundation we had developed with ophthalmologists. However, the migration to online is forcing us to redefine our focus. We will need to launch products that are aligned with this focus.

Q: With regard to in-licensing products, could you discuss the number of candidates you have and provide some sense of scale?

A: It is challenging to provide specific quantitative details but I can say that we have a keen focus on financial discipline in making investment decisions. We set different hurdle rates for each of the regions and businesses. We try to maintain a good balance between regions as well as specific therapeutic areas. The number of investments has recently increased slightly because of the accumulation of candidates. Going forward, we will be narrowing in our focus slightly while increasing financial leverage, with a view to capturing growth opportunities by maintaining a certain level of investments. We aim to be proactive while also maintaining financial discipline in order to capitalize on our existing portfolio.

Q: I believe that your myopia treatment is unlikely to be covered by health insurance in Japan. How are you thinking about pricing outside of the reimbursement framework?

A: Until now, there haven't been many such examples in the out of pocket treatment market in Japan, and certainly very few in ophthalmology. Using examples of other compounds as reference, we will develop strategies tailored to each of the individual markets in Japan and Asia. Myopia is a widespread condition with many patients, so the key will be developing a reach that fully taps into this potential. The alliance with Plano is part of this framework. We are trying many different approaches to access patients.

Q: Do you focus your basic research on specific conditions or specific compounds? Do you have plans to make disclosures such as the prospective pipeline timing for something like a blepharoptosis drug?

A: With regard to showcasing our R&D activities, we are thinking about either discussing it as a part of our upcoming medium-term plan or setting up a separate session. The focal point for our basic research is specific diseases. We are working on new treatment options and modalities for various diseases, both in-house as well as in joint development. Since we currently only disclose mid- and late stage pipeline projects, I would like to

set up an opportunity to talk about various topics such as what kind of basic research we are doing and where we see business potential.

Q: The share price has been weak. Please talk about your commitment to investors.

A: I will discuss KPIs when we launch our new medium-term plan in the spring, but we are committed to sustainable growth over time. What I would like to avoid is surprises. Sales increased in the first half of the current fiscal year: even if the magnitude of growth was small, growth is growth. What needs to be addressed is profitability. We aim to increase profitability on a core basis, including after-tax profitability.

Q: Although you have been proactive in developing business through your venture capital operation, I do not have a good understanding of your competitive position. How competitive are you? Why would a start-up choose Santen over other venture capital firms?

A: Our venture capital arm operates primarily in the U.S. and has made more than a dozen investments. The results have been excellent: we have recouped our investments in almost all cases. I think the reason why start-ups choose Santen is because the exit strategy is relatively clear. From the start-ups' point of view, there is a perception that Santen provides appropriate support when commercializing and industrializing.

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