

Corporate Governance in view of the Changing Environment and for Medium-to Long-term Growth



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Review of Fiscal 2020, the Second Year of the Medium-Term Management Plan

Matsuda With regard to the Medium-Term Management Plan, there were two major developments. One was the transfer of the Sakura Plant to IWAKI SEIYAKU CO., LTD. as part of business structure reform, which was a tough decision. The other was that our employees seized the initiative in cultivating a new corporate culture, sharing values to promote reform. With regard to financial results, both net sales and operating income exceeded the plan's targets, led by sales expansion in the allergens area.

Torikai It is significant that values are shared throughout Torii to promote reform on the initiative of employees rather than by a top-down approach. Amid the COVID-19 pandemic, we had to respond to unprecedented change, including working from home. In these circumstances, our employees did their utmost and demonstrated their ability to adapt to change and it was thanks to them that Torii was able to steadily achieve good results.

Fukuoka Responding to the COVID-19 pandemic was the priority in fiscal 2020. Supply chains were disrupted and our medical representatives (MRs) refrained from visiting medical institutions. As for concern that our sales would be

adversely affected, it was thanks to employees' efforts that this did not occur. This achievement was backed by our employees' strong sense of obligation to fulfill our social responsibility of providing pharmaceutical products and the fact that Torii's fundamentals have been strengthened by overhauling its organization and functions, optimizing resource allocation, and other measures implemented for business structure reform.

Matsuda I am deeply grateful to our employees. Meanwhile, issues remain. In order to reform the corporate culture, we need to continue by trial and error for some time since current circumstances make it difficult to implement concrete initiatives face to face. In fiscal 2021, we plan to launch some new products and achieve additional indications for existing products. As MRs continue to refrain from visiting medical institutions, how best to effectively provide information to medical professionals is an issue.

Torikai Fiscal 2021 is expected to be a watershed since we need to implement the growth strategy with a view to the next five or ten years while responding to the COVID-19 pandemic.

Fukuoka Going forward, the role of MRs will become a vital issue that needs to be addressed. The ways of providing information are changing along with the external environment. In order to enhance the value of MRs, it is necessary to

enhance their expertise. There is an urgent need to respond to digital transformation (DX), and how best to do that is another important issue.

Enrichment of Corporate Governance under the New Management Structure

Matsuda Considering that pharmaceutical companies bear such heavy responsibility concerning people's lives and health, I recognize that our duty to ensure thorough compliance is greater than is generally the case in other industries. This is particularly true for us, since, as listed companies, both our parent JT and Torii are continually under pressure to improve and strengthen corporate governance. In view of these circumstances, Torii transitioned to a new management structure* in fiscal 2020 to maintain the trust of stakeholders. Although it is difficult to evaluate corporate governance in the first year of the transition because of the impact of the COVID-19 pandemic, we have established the new structure and are making it work.

Fukuoka As a result of further delegation of authority to Executive Officers, business execution has become speedy. Over the past 12 months, as I observed Executive Officers and Vice Presidents of divisions speak at Executive Committee meetings, I think the delegation of authority was proven effective by their enthusiasm and keen awareness about the agenda and fast decision-making. On the other hand, in the case of Torii, almost all members of the Board of Directors attend weekly Executive Committee meetings and monthly business report meetings. So, before submitting to the Board of Directors, principal matters of importance have already been discussed in depth and considered by the members of the Board. To go a step further, there is still room for the Board of Directors to deliberate on business strategy based on innovative ideas, going beyond refining of the existing business, as well as DX-driven reform. I think Outside Directors should become more actively involved in setting the agenda, rather than simply monitoring what is reported or submitted to them.

Torikai Torii introduced the new management structure not because there was a big problem with the former structure but because the Company was pursuing further improvement in management, such as enhancing transparency, by capitalizing on external perspectives. As President Matsuda mentioned, because of the impact of the COVID-19 pandemic in its first year, the new structure has yet to be thoroughly evaluated. As an Outside Director, I have opportunities to get involved, including by participating in many meetings. I think we are in a position to more vigorously offer recommendations and proposals.

Fukuoka Torii is a down-to-the-earth company committed to sound management practice. In an era in which the business environment is changing rapidly, we need deeper discussion, including to introduce factors that shed a new light on the

current situation, with an eye to prospects further into the future. Members of the Board and Executive Officers should have a company-wide perspective in considering these issues. By offering recommendations that trigger discussion, I would like to act as a catalyst.

Matsuda Free-flowing discussion with both of you will be a good opportunity for us to receive suggestions from an external viewpoint. I would like to make it happen.

*The management structure where Independent Outside Directors constitute a majority of the Board of Directors

Initiatives in Fiscal 2021 and the Role of Outside Directors

Matsuda As this is the final year of the Medium-Term Management Plan, we will bring to perfection the measures for business structure reform, the growth strategy, and maintaining the trust of stakeholders. I would like to receive objective advice from a broad perspective from both of you in your roles as Outside Directors and draw on your input in decision-making. As management and business execution become more separated, those engaged in business execution can concentrate on their operation, but it may narrow down their perspective. I would appreciate if you can monitor and guide us taking this downside risk into consideration.

Torikai In stating our views on long-term prospects from an objective perspective and expressing opinions that will contribute to sustainable growth of Torii, as Outside Directors we are eager to vigorously offer recommendations and proposals, as mentioned earlier in this discussion.

Fukuoka Greater use of remote meetings during the COVID-19 pandemic has led to greater efficiency in some ways. I think the use of such remote means should also enable us to enhance communication among members of the Board. In fiscal 2021, I will keenly watch the performance of the newly established departments, such as the Human Resources Development Dept., the Research & Development Dept., and the CMC Dept. In particular, the Human Resources Development Dept. will have my attention, because it has the important role of effectively promoting the sustainable growth of the Company.

Matsuda Human resources development is an eternal theme for companies and an issue that should always be focused on. The Human Resources Development Dept. was newly established for the purpose of enhancing the expertise of MRs. The Human Resources Development Dept. will collaborate with the Human Resources & Administration Dept. to promote human development (*hitozukuri*) in the broader sense of the term. We are resolved to attain the goals of the Medium-Term Management Plan this year and will formulate the next Medium-Term Management Plan targeting a new round of growth.

A web conference system was used for this roundtable discussion.