



Tokyo, March 10, 2022

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**FOR IMMEDIATE RELEASE**

**Torii's Views on Report from ISS, a Proxy Advisory Firm,  
On Proposals for Torii's General Meeting of Shareholders**

Torii Pharmaceutical Co., Ltd. ("Torii") (TSE: 4551) confirmed that Institutional Shareholder Services Inc., ("ISS"), a proxy advisor, published an approval or disapproval recommendation report on the proposals submitted to the 130th General Meeting of Shareholders scheduled for March 29, 2022. In this report, ISS recommends that Torii's shareholders approve Proposal 7, Proposal 10, Proposal 11 and Proposal 12, which were proposed by a shareholder. Torii hereby announces its views on this matter as follows.

Torii would like to ask all of its shareholders for their understanding in respect of its views and to make decisions on the exercise of their voting rights.

1. Corporate Governance Structure, etc.

While ISS recommends that Torii's shareholders disapprove Proposal 9: Partial Amendment to the Articles of Incorporation (Experience of Directors), it recommends that Torii's shareholders approve Proposal 7: Partial Amendment to the Articles of Incorporation (Prohibition of Appointments of Officials from Japan Tobacco Inc.).

Torii believes that the Board of Directors needs to examine and decide on the selection of candidates for Directors from various perspectives, and it is inappropriate to limit the pool of candidates due to specific pro forma attributes, such as the organizations for which they had worked and their experience. In addition, since appointments of Directors from the candidates are approved at the General Meetings of Shareholders, Torii believes that it is not necessary to preliminarily limit the individuals who can become the Directors in the Articles of Incorporation due to the organizations for which they had worked and their experience.

Regarding the selection process for the Directors of Torii, the Representative Director selects individuals who have the ability and insight to appropriately perform their duties as Directors, as well as excellent personal characteristics. The Representative Director prepares candidate proposals and explains them to Independent Outside Directors before submitting proposals to the Board of Directors, to secure opportunities to obtain appropriate advice from Independent Outside Directors. Ultimately, candidates for Directors are determined

by resolution of the Board of Directors, the majority of which are Independent Outside Directors. (Currently, the Board of Directors consists of three Directors, of which two are Independent Outside Directors, and it is not possible to determine candidates for Directors at the sole discretion of the Representative Director.) In addition, among the Directors, there have been continuous discussions on policies concerning succession plans for the Representative Director, and candidate proposals that also reflect the opinions and advice of the Outside Directors are prepared at the Board of Directors' meetings. In March 2020, the Nominating Committee was abolished when Torii adopted the system where the Board of Directors consists of the three Directors and the Outside Directors are a majority thereof. This reflects the fact that the Board of Directors, where the Outside Directors are a majority thereof, is now able to conduct the same types of discussions that were previously held at the Nominating Committee in an efficient manner and therefore, the establishment of the independent Nominating Committee was deemed insignificant. Due to the establishment of such process for the selection of the Directors, Torii's Board of Directors is structured so that it can make its own decisions without being affected by Japan Tobacco Inc. ("JT").

Furthermore, ISS pointed out that there are concerns about the ability of the Board of Directors to make judgments due to the lack of experience in the pharmaceutical business among the Outside Directors. However, Torii has introduced a system that separates business execution from supervision. While the Executive Officers, mainly those with deep knowledge of Torii's business, conduct business execution, individuals with supervisory skills serve as the Directors. The Directors, including the Outside Directors, obtain any necessary information by attending and discussing at the management meetings and other important internal meetings and pass resolutions at the Board of Directors' meetings based on a thorough understanding of the operational situation. This makes it fully possible for the Outside Directors to disagree with the Representative Director.

Given this system, Torii believes that ISS's statement that JT's influence is strong on Torii's Board of Directors is incorrect. It is also inappropriate to point out that there are concerns about the ability of the Board of Directors to make judgments due to the lack of experience in the pharmaceutical business among the Outside Directors. Accordingly, Torii opposes Proposal 7.

## 2. Investment for Future Growth and Shareholder Returns

ISS recommends that Torii's shareholders approve Proposal 10: Partial Amendment to the Articles of Incorporation (Disclosure of Cost of Capital) because, among other reasons, it will help management to pay more attention to an inefficient capital policy, with a clear opportunity to improve Torii's market valuation. Regarding Proposal 11: Appropriation of Surplus and Proposal 12: Repurchase of Treasury Stock, ISS recommends that Torii's shareholders approve the proposals because, among other reasons, additional shareholder returns, given the level of the Torii's shareholders' equity, should be feasible without causing problems for Torii's financial health and would lead to a more efficient capital profile.

Torii recognizes that improving its return on equity, which ISS cites as a key issue, is one of its most

important management goals.

Due to the return of exclusive marketing rights to sell six of the anti-HIV drugs in Japan, in FY 2018, Torii recorded impairments in respect of plants and equipment, and the net income for the current period decreased. Thereafter, in FY 2019, Torii recorded an extraordinary gain by the return of such marketing rights and the net income for the current period increased significantly, resulting in a significant increase in Torii's shareholders' equity. In addition, net sales and operating profit decreased significantly by the return of such marketing rights. Accordingly, Torii worked to overcome these decreases and increase corporate value over the medium- to long-term by focusing on business structural reforms and growth strategy as its important management goals. Under the "Medium-Term Management Plan 2021", which covers the three-year period from FY 2019 to FY 2021, Torii worked to become profitable at an early stage in respect of operating profit, achieved profitability ahead of schedule in FY 2019 and expanded its profit. In addition, as business structural reforms progressed as expected, under the new "Medium-Term Management Plan 2022-2024", Torii will prioritize investments that will contribute to future growth, such as the acquisition of new in-licensed drugs, for further growth in net sales and operating profit while also being conscious of improving capital efficiency. Torii intends to use its cash on hand for more proactive business investment than ever before. As ISS pointed out, R&D expenditures in FY 2020 were limited in the context of the reorganization of R&D functions as part of business structural reforms. However, in addition to joint development with JT, Torii will also implement in-licensing and R&D on its own in the future. The nature of the business of investment for in-licensing does not allow Torii to decide the investment amount, timing, or other matters on its own in advance, and thereby makes it difficult for Torii to present concrete plans. However, Torii will continue to grow its sales and profits through business investment, and aim to improve medium- to long-term corporate value with awareness of the cost of capital.

Torii sees shareholder returns along with the growth strategy as one of its most important management goals, and Torii always strives to pay stable and continuous dividends. At the same time, in Torii's current business phase, Torii recognizes that both of business investment and shareholder returns are important in order to increase its corporate value over the medium- to long-term. Torii will first focus on proactive business investment, establish a business foundation for stable growth in the future and then expand shareholder returns. Going forward, Torii will regularly evaluate adequacy of its lineup of in-licensed drugs and its financial situation, and flexibly review the capital policy, including shareholder returns.

As stated above, Torii is mindful of the cost of capital in management regardless of whether or not Torii discloses the cost of capital. In addition, Torii's policy is to review its capital policy, including shareholder returns, after Torii conducting proactive business investment in order to increase corporate value over the medium- to long-term. Accordingly, Torii opposes Proposal 10, Proposal 11 and Proposal 12.

Again, Torii would like to ask all of its shareholders for their understanding in respect of its views as stated above and to make decisions on the exercise of their voting rights.

End

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