December 28, 2023

Company name: Torii Pharmaceutical Co., Ltd.

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Initiatives to improve corporate value, including measures to realize capital cost and stock price-conscious management

At the Board of Directors meeting on December 21, 2023, the Board resolved to implement initiatives to improve corporate value. This includes measures to establish management practices that take into account capital costs and stock prices in the ways described below.

Please note that this statement reflects our thinking as of December 2023. In the future, we will continue to work toward further increasing our corporate value.

1. Assessment of current situation

Our price-to-book ratio has been less than 1.0 since 2019. We expect it to remain in the range of 0.8-0.9 in 2023.

The factors contributing to a PBR of less than 1.0 include that our return on equity (ROE) has remained around 3% for the past several years; our unclear growth strategy has led to decreased expectations for further growth among our shareholders and investors; and our corporate governance structure needs further improvement.

We recognize that in order to address the issues discussed above, it is vital for us to be more transparent and proactive in our communication with our shareholders and investors.

2. Goals

In order to increase corporate value, we have set the following goals:

① To achieve the targets of our medium- to long-term vision “VISION2030”

(“Achieving record high net sales” and “Bringing record high operating income within reach”)

② To achieve an ROE of 8% or more by 2030, or as soon as possible thereafter

(We will announce our ROE target amounts and timeframe for achieving them after we have made some progress with our focused business investments and can better project our medium- and long-term growth.)

③ To achieve a DOE level (currently around 3.5%) comparable to our competitors while emphasizing sales and income growth through our business investments.
(We will announce our timeframe for achieving this goal after we have made some progress with our focused business investments and can better project our medium- and long-term growth.)

3. Future initiatives

We will implement a variety of initiatives in order to achieve the goals described above.

① Achieving the goals of our medium- to long-term business vision, "VISION2030"

- ✓ Concentrating on both "maximizing the value of existing and developing products" and "acquiring new in-licensed products"
- ✓ With a focus on realizing this goal, we will make concentrated business investments of approximately ¥40 billion by 2027.

② Improve ROE

- ✓ Aim for steady improvement in ROE through increased sales and income
- ✓ Following the period of concentrated business investments ending in 2027, we anticipate that ROE will improve based on the following factors:
  - With new products under development going on the market, we will begin depreciation of the one-time license fees and other expenses that are recorded as assets, thereby condensing shareholder equity.
  - With their launch, sales and profits will increase as core products

*Although concentrated business investments will be made until 2027, one-time in-licensing payments and milestone payments associated with development progress may be recorded as assets instead of expenses. Therefore, in-licensing does not necessarily lead to a condensing of shareholders' equity, and depreciation will not begin until the product is launched. Further, it will take time until sufficient sales and profits can be achieved after product launch, so we don't expect gradual improvement in ROE until 2028 or later.

③ Shareholder returns

- ✓ While our basic policy is to pay ongoing and stable dividends, to meet shareholders’ expectations, we hope to achieve medium- to long-term improvement in corporate value through our business investments.
- ✓ Since it takes time to condense shareholders’ equity, we don’t expect to see significant DOE improvement right away. We regularly evaluate the degree to which our development pipeline is being bolstered via business investments, our financial situation, etc., and flexibly consider ways to enhance shareholder returns through increasing dividend levels and other means.

④ Improving corporate governance

- ✓ With the new Board structure following the transition to being a company with an audit and supervisory committee, while reflecting diverse management values and improving corporate value, we will also continue to demonstrate independence from controlling shareholders while working to protect minority shareholders

In response to items 1-4 above, we will work to further strengthen communication with capital markets by expanding opportunities for dialogue with Directors (including Outside Directors), issuing integrated reports, holding regular financial result briefings, and proactively engaging in dialogue with our investor.

Initiatives to Improve Corporate Value

December 2023

Torii Pharmaceutical Co., Ltd.

AGENDA

- **Measures to realize management consciousness of capital costs and stock price**

- Specific initiatives to improve corporate value
  - ① Achieving the goals of our medium- to long-term business vision, “VISION2030”
  - ② Improving ROE
  - ③ Shareholder returns
  - ④ Improving corporate governance

Assessment of Current Situation

- Our price-to-book ratio has been less than 1.0 since 2019. We expect it to remain in the range of 0.8-0.9 in 2023
- PBR remains less than 1.0 because ROE remains low; this has various causes including an unclear growth strategy and governance issues

Changes in PBR/ROE

✓ For the past several years, PBR has remained less than 1.0 and ROE around 3.0%

[PBR changes*]

2018	1.07 times
2019	0.76 times
2020	0.94 times
2021	0.81 times
2022	0.81 times

*PBR is calculated using the highest stock price from each year

[ROE changes]

2018	1.3%
2019	27.3%
2020	3.1%
2021	2.9%
2022	3.3%

Analysis and Assessment

✓ The following reasons acknowledged for PBR remaining below 1.0:

- ROE continues at levels around 3%
  - Significant increase in shareholders' equity and decrease in profits due to the receipt of a one-time payment in 2019 related to the return of marketing rights for anti-HIV drugs
- The need for convincing explanation around our lack of a clear growth strategy
  - Expectations for growth in corporate value have not been raised in the capital market
- The need to improve corporate governance structures

Goals

- To increase corporate value, we have set the following goals:

Achieve targets of our medium- to long-term business vision, “VISION2030”

(“Achieving record high net sales” and “Bringing record high income within reach”)

To achieve ROE of 8% or more by 2030, or as soon as possible thereafter

(We will announce our ROE targets and timeframe for achieving them after we have made some progress with our concentrated business investments and can better project our medium- to long-term growth)

To achieve a DOE level (currently around 3.5%) that is comparable to our competitors while emphasizing sales and income growth through our business investments

(We will announce our timeframe for achieving targets after we have made some progress with our concentrated business investments and can better project our medium- to long-term growth)

Future Initiatives

- We will pursue various initiatives to achieve these goals. The details of specific initiatives are described in the following slides

1 Realizing VISION2030

✓ Concentrating on both "maximizing the value of existing and developing products" and "acquiring new in-licensed products"

✓ With a focus on realizing this goal, we will make concentrated business investments of approximately ¥40 billion by 2027

2 Improving ROE

✓ Aim for steady improvement in ROE through increased sales and income

✓ Following the period of concentrated business investments ending in 2027, we anticipate that ROE will improve based on the following factors:

➢ With new products under development going on the market, we will begin the depreciation of the one-time licensing fee and other expenses that are recorded as assets, thereby condensing shareholders' equity

➢ With their launch, increase sales and profits as core products

* Although concentrated business investments will be made until 2027, one-time in-licensing payments and milestone payments associated with development progress may be recorded as assets instead of expenses. Therefore, in-licensing does not necessarily lead to a condensing of shareholders' equity, and depreciation will not begin until the product is launched. Further, it will take time until sufficient sales and profits can be achieved after product launch, so we don't expect gradual improvement in ROE until 2028 or later

3 Shareholder returns

✓ While our basic policy is to pay ongoing and stable dividends, to meet shareholders' expectations, we hope to achieve medium- to long-term improvement in corporate value through our business investments

✓ Since it takes time to condense shareholders' equity, we don't expect to see significant DOE improvement right away. We regularly evaluate the degree to which our development pipeline is being bolstered, our financial situation, etc., and flexibly consider ways to enhance shareholder returns through increasing dividend levels and other means

4 Improving corporate governance

✓ While reflecting diverse management values and improving corporate value, we will also continue to demonstrate independence from controlling shareholders while working to protect minority shareholders

AGENDA

- Measures to realize management consciousness of capital costs and stock price
- **Specific initiatives to improve corporate value**
  ① **Achieving the goals of our medium- to long-term business vision, "VISION2030"**
  ② Improving ROE
  ③ Shareholder returns
  ④ Improving corporate governance

Maximizing the Value of Existing and Developing Products

Future Initiatives	
1 Realizing VISION2030	3 Shareholder returns
2 Improving ROE	4 Improving corporate governance

- To maximize the value of our existing products, we will focus on the areas of skin disease, allergens, and renal disease and hemodialysis
- To achieve VISION2030, we will position skin disease and allergen areas as our growth drivers

Skin disease

- ✓ Focus on market penetration of CORECTIM
- ✓ Work toward an early launch and market penetration of developing products* (JTE-061, TO-208, NAC-GED-0507)
- ✓ On top of existing products like CORECTIM and ANTEBATE, we will also increase our developing lineup to address a wider range of diseases
- ✓ Play a role in being growth drivers for VISION2030

* Indications for medications under development: JTE-061: atopic dermatitis, plaque psoriasi; TO-208: molluscum contagiosum; NAC-GED-0507: acne

Allergens

- ✓ Pursue new growth in CEDARCURE and MITICURE
- ✓ With CEDARCURE we will steadily implement measures to support a stable supply in the future
- ✓ Conduct development to quickly launch and penetrate the market for GRAZAX, the allergen immunotherapy drug used for grass pollen allergies we introduced in December
- ✓ Play a role in being growth drivers for VISION2030

Renal disease and hemodialysis

- ✓ Achieve further penetration of Riona, which is now also indicated for iron deficiency anemia
- ✓ Achieve further penetration of ENALOY, which was launched in December 2020 and is in its growth phase
- ✓ Provide a wide range of products such as REMITCH by appropriately utilizing the knowledge and information we have accumulated in the renal disease and hemodialysis area

Improving the Development Pipeline through In-licensing

- Aggressively pursue exploratory activities and business investments with the goal of in-licensing new drugs
- Proactively challenge ourselves with our own in-licensing and development efforts, not limited to our current franchise areas, but including peripheral areas as well

JT Products

Exploratory activities by Torii Pharmaceutical (collaboration with JT)

Explore areas related to skin diseases, allergens, and renal disease and hemodialysis
Determine compatibility with unmet needs, development challenges, and profitability

Development through JT

JT promotes development through the collaboration structure with JT Group

Joint development with JT from late stages of development (cost burden and profit distributed according to roles)

In-licensing and development by Torii Pharmaceutical

In-licensing and development by mobilizing our experience and know-how (Torii bears all costs and profits)

Full development pipeline realization

Concentrated Business Investments

- The period up to 2027 is set as one of concentrated business investments, with around ¥40 billion in investments expected
- As of the end of September 2023, the Company decided to invest a total of about ¥5 billion. As a milestone payment, ¥2 billion will go to progress in development of the in-licensing agreement for GRAZAX, an allergen immunotherapy drug for grass pollen allergy, which was introduced in December

Future Initiatives

1 **Realizing VISION2030**
2 Improving ROE
3 Shareholder returns
4 Improving corporate governance

The period of concentrated business investments (2023-2027)

✓ To achieve the goals of VISION2030 and ensure sustainable growth beyond 2030, we plan to invest ¥40 billion in our business by the end of 2027

✓ We will prioritize investments, such as acquiring new in-licensed products, that contribute to future growth

✓ Given the nature of investing, it is difficult to disclose specific details or plans. For investments already decided, we will disclose the scope and details when appropriate

✓ Through business investments, we want to achieve sustainable growth in sales and profits while also increasing corporate value in the medium to long term, keeping in mind capital costs

Major investments already decided

✓ License agreement for acne treatment (NAC-GED-0507)
- ➢ Amount earmarked for investment: about ¥1.6 billion
- ➢ Investment summary:
  - License agreement for exclusive development and commercialization rights in Japan for acne treatment drug (NAC-GED-0507)
  - Future milestone payments will be made according to development progress, etc.

✓ Capital investments to increase production of CEDARCARE
- ➢ Amount earmarked for investment: about ¥3.0 billion
- ➢ Investment summary:
  - Capital investment in API manufacturing to meet the increase in CEDARCARE sales volume

✓ License agreement for GRAZAX, an allergen immunotherapy drug for grass pollen allergies
- ➢ Amount earmarked for investment: about ¥2.0 billion

Sources of Our Competitive Edge: Human and Intellectual Capital

- The main sources of our competitiveness in achieving VISION2030 are our human capital, intellectual capital, and unique business model

Human capital

To achieve VISION2030, the following types of human resources are an important source of our competitive edge

- ✓ Those with the discernment and negotiating skills needed to find and acquire valuable pharmaceuticals from around the world
- ✓ Those with a high level of scientific knowledge and a deep understanding of compliance and who can accurately grasp what is needed in the medical field, help increase the value of the products we develop and help effectively deliver them to medical professionals and patients
- ✓ Highly specialized human resources who can secure a reliable supply of high-quality pharmaceuticals
- ✓ Highly specialized back-office personnel who can contribute to maximizing front-office activities while consistently meeting their responsibilities to stakeholders
- ✓ Human resources that can partner appropriately on each project, increasing value through collaboration
- ✓ Personnel who are always able to embody and practice TORII's POLICY

Intellectual capital

The expansion of our lineup of valuable new drugs and of our development pipeline is also an important source of our competitive edge

- ✓ Many years of developing and selling distinctive pharmaceuticals in the areas of skin disease, allergens, and renal disease and hemodialysis

- ✓ Torii Pharmaceutical's strengths are the high level of expertise cultivated in franchise areas, our trust-based relationships with medical professionals, and our strong presence in these fields
- ✓ In particular, we recognize that the areas of skin disease and allergens have the potential to be major growth drivers toward achievement of VISION2030

Source of Our Competitive Edge: Our Unique Business Model

- The main sources of our competitiveness in achieving VISION2030 are our human capital, intellectual capital, and unique business model

The advantages of our business model

[Our unique business model]

- ✓ A structure without an in-house factory and with minimal research and development functions
- ✓ Manufacturing and research are covered through collaboration with outside companies with high levels of expertise

[Our strengths]

- ✓ Along with having a stable profit structure with streamlined management, we can respond agilely and flexibly to changes in and outside the Company
- ✓ By selecting the most suitable partner for each case and flexibly building and strengthening cooperative systems, we maximize the value we deliver to the medical field

The merits of our collaboration structure with JT

[Collaborating with JT]

- ✓ The two companies develop an integrated value chain and establish an efficient system of collaboration
  - ➢ JT handles research and development while Torii Pharmaceutical is responsible for manufacturing, sales and promotion
  - ➢ Costs and profits are shared based on the role played by each company

[Benefits we receive]

- ✓ Besides doing business using an efficient collaborative system, we can also flexibly and proactively invest in our areas of expertise
- ✓ We can utilize JT's knowledge, know-how, and human resources when seeking new products to in-license, doing evaluation and independent in-licensing, and developing products

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Capital Efficiency Outlook

- To improve ROE, we will work to increase profits and condense shareholders' equity. We expect the gradual improvement of ROE to occur in 2028 and beyond
- We plan to announce targets and timelines for achieving them once we can forecast the progress of business investments to some degree

Future Initiatives

1. Realizing VISION2030
2. **Improving ROE**
3. Shareholder returns
4. Improving corporate governance

	2023-2027		2028 and beyond
	Implement concentrated business investments of ¥40 billion		Manufacture and sell products that have been brought to market through concentrated business investments (investment will continue beyond 2028)
Profits	Making a profit from business investments requires a certain amount of time		Increase profits with pipeline launches
Shareholders' equity	A certain amount of time is needed to condense shareholders' equity because it takes time for growth investments to start depreciating		Initiate depreciation in step with market launches, condense shareholders' equity
ROE level	It requires a certain amount of time for ROE to improve	Disclose targets and timelines	Gradually improve ROE Aim to achieve ROE of 8% or more by 2030, or soon thereafter

TORII PHARMACEUTICAL CO., LTD.

Using Cash Reserves for Business Investments

Future Initiatives

1 Realizing VISION2030
3 Shareholder returns
2 **Improving ROE**
4 Improving corporate governance

- Business investment, as a rule, is based on cash reserves
- If additional funds are needed, we will invest actively and consider borrowing or other means of financing

Using cash reserves

- **Cash reserves level:** Cash reserves are higher than before 2018 due to the one-time payment that accompanied the return of the sales rights for anti-HIV drugs. The one-time payment was received as compensation for future profits. Accordingly, this money will be used primarily for future business investments
- **In-licensing environment:** Intense competition to acquire in-licensed products, tough negotiations amidst tight competition, the possibility of multiple simultaneous opportunities to acquire in-licensed products, and many start-up companies with high fundraising needs involved in negotiations

To acquire new in-licensed products, it is important to have sufficient cash reserves and to be able to allot funds flexibly

Borrowing and other financing

- **Basic policy:** the fundamental rule is to use cash reserves to make business investments
- **Cases for considering fundraising:** It is possible for the total implementation and development cost per case to exceed ¥10 billion; multiple in-licensing may be carried out simultaneously

When necessary, consider borrowing or other financing options while taking into account the level of cash reserves

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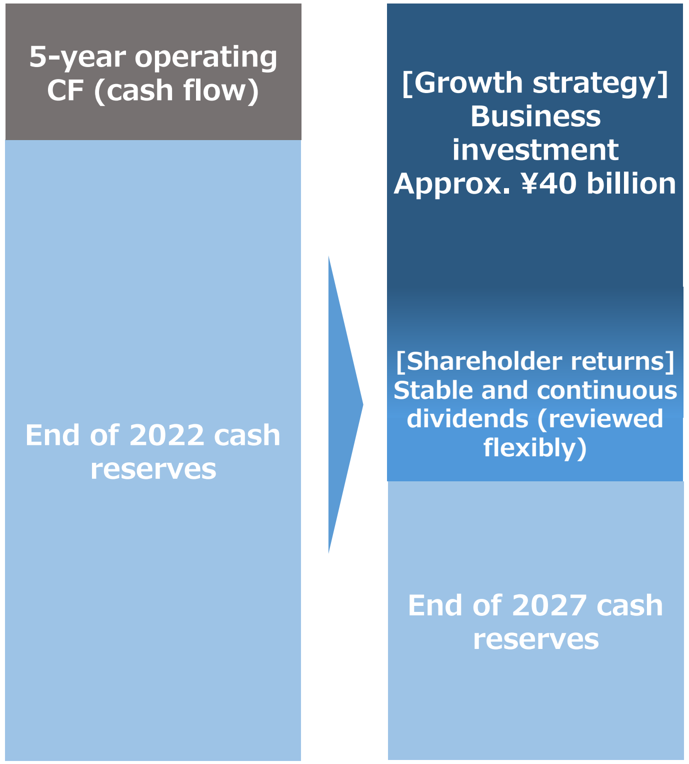
Approach to Capital Allocations

- Prioritize the use of cash reserves for business investments; aim to increase medium- to long-term corporate value through business investments while keeping capital costs in mind

Capital allocation until the end of 2027 (image)



Growth strategy

- ✓ The Company aims to increase its corporate value in the medium to long term by maximizing the value of existing and developing products and by acquiring new in-licensed products. We expect to invest approximately ¥40 billion by the end of 2027
- ✓ While the basic principle for business investment is to use cash reserves, we will actively invest, including considering raising funds through borrowing, etc., if additional funds are necessary
- ✓ Given the nature of investing, it is difficult to disclose specific details of investment targets or plans. For investments already decided, we will disclose the scope and details when appropriate

Shareholder returns

- ✓ Our basic policy for shareholder returns is to provide continuous and stable dividends. For now, we will use DOE as the shareholder return indicator. In the future, we hope to achieve a level comparable to our competitors (currently around 3.5%). We will periodically evaluate the degree to which our development pipeline is being bolstered and our financial situation, etc., and consider further enhancement of shareholder returns, such as raising the dividend level
- ✓ Whether to acquire treasury stock and its scale will be examined after comprehensively taking factors such as business environment and investment progress into account

End of 2027 cash reserves

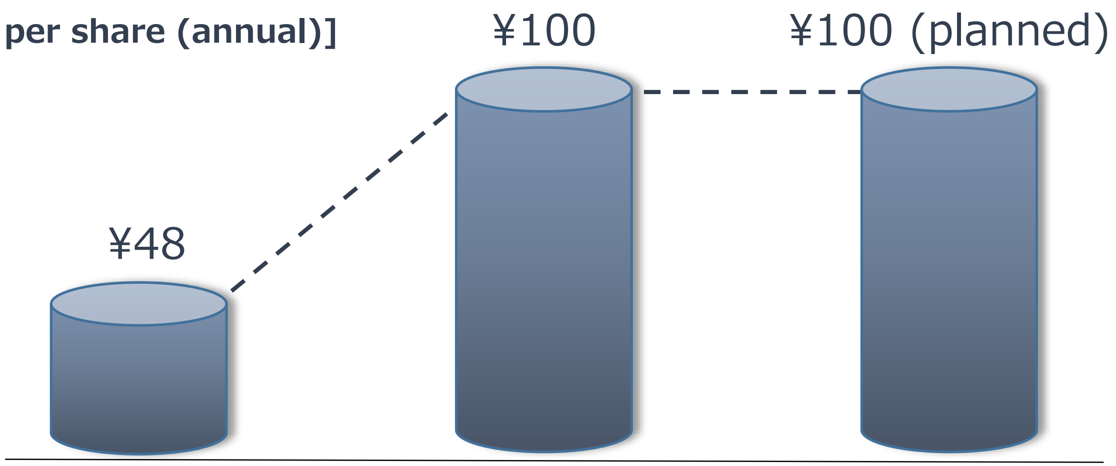
- ✓ Taking into account the working capital necessary for business operations and investment capacity from 2028 onward, some cash reserves will be required even at the close of 2027

Shareholder Return Policy and Dividends

Future Initiatives
1 Realizing VISION2030
2 Improving ROE
3 Shareholder returns
4 Improving corporate governance

- Our basic policy for shareholder returns is to provide continuous and stable dividends, with the belief that increasing our corporate value through business investments over the medium to long term will meet the expectations of our shareholders
- For now, we will use DOE as the shareholder return indicator. In the future, we hope to achieve a level comparable to our competitors (currently around 3.5%)

[Dividend per share (annual)]



	2021	2022	2023*
DOE	1.2%	2.4%	
ROE	2.9%	3.3%	
Dividend payout ratio	40.0%	71.2%	83.5%

2022 Dividend

✓ With the goal of enhancing shareholder returns, the dividend per share increased from ¥48 to ¥100

2023 Dividend

✓ In the revised third-quarter forecast, we revised our profit forecast upward without changing dividends

✓ In preparation for the announcement of full-year financial results, we are considering whether dividends will be increased, and if so, the amount of increase, after carefully studying the medium- to long-term business outlook

* Dividend payout ratio calculated based on the revised forecast for the third quarter of 2023

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  ④ **Improving corporate governance**

Direction Moving Forward

Future Initiatives	
1 Realizing VISION2030	3 Shareholder returns
2 Improving ROE	4 **Improving corporate governance**

- To further enhance corporate governance by transitioning into a company with an audit and supervisory committee and making changes to the executive structure
- To continue to ensure the new system functions well while also continuing to actively communicate with the capital markets

Diversity of Board Members

✓ Under the new structure for the Board of Directors, we will reflect diverse values in management and increase corporate value

Independence from controlling shareholders and protection of minority shareholders

✓ The newly formed nominating and remuneration advisory committee will consist exclusively of independent outside directors

✓ Structure will continue in which a majority of the members of the Board of Directors are independent outside directors

Communication with the capital markets

✓ Increase opportunities for dialogue with Directors (including Outside Directors)

✓ We are preparing to publish the 2023 Integrated Report

✓ We will continue to hold regular financial result briefings

✓ Continue to actively engage in discussion with investors through one-on-one or small group meetings

Appendix: Specific initiatives to improve corporate value

① Achieving the goals of our medium- to long-term business vision "VISION2030"

- "VISION2030" and "Medium-Term Management Plan 2023-2025"

In 2018, we made the management decision to return the exclusive Japan sales rights for six anti-HIV drugs, which accounted for about one-third of our sales at the time, and to receive future profits in a one-time payment of approximately ¥40 billion in 2019, and to use this payment and cash reserves to help grow the Company.

Under "Medium-Term Management Plan 2021," which covered the years 2019 to 2021, we expected losses to continue, but to ensure sustainable growth and rapid recovery from the loss of business volume following the return of exclusive rights for the anti-HIV drug sales, we have put in place business structural reforms (implementation of a special support system for career changes, organizational restructuring such as branch consolidation and closure, transfer of long-listed products to other companies, and transfer of the Sakura Plant) and growth strategies (launching CORECTIM and ENALOY, value maximization, additional indications for Riona, and acquiring newly in-licensed products such as JTE-061, TO-208, and ORLADEYO), as well as achieving growth in the allergens area. This resulted in profitability during the "Medium-Term Management Plan 2021" period.

Due to a one-time (approx. ¥40 billion) payment of future profits related to the return of anti-HIV drug sales rights, ROE temporarily rose to roughly 27% in 2019. However, since 2020, ROE has stayed around 3% due to our focus on business restructuring, the decrease in profits from the return of anti-HIV drug sales rights, and the increase in shareholders' equity from the receipt of compensation.

At this time, in order to quickly recover from the decline in business volume following the return of anti-HIV drug sales rights, to achieve the goals of the medium- to long-term business vision "VISION2030" formulated in February 2022, and to ensure sustainable growth beyond 2030, Torii is focused on "maximizing the value of existing and developing products" and on "acquiring new in-licensed products." Further, we are working on several growth strategy measures as well as measures to retain stakeholder trust in our "Medium-Term Management Plan 2023-2025."

For more information, look for "VISION2030" and "Medium-Term Management Plan

2023-2025" on the Torii website.

- ■ "Maximizing the value of existing and developing products" and "Acquiring new in-licensed products"

To achieve the goals of VISION2030, we are working to "maximize the value of existing and developing products" and to "acquire new in-licensed products."

- ✓ Maximizing the value of existing and developing products

In terms of "Maximizing the value of existing and developing products," three areas are our focus: skin disease, allergens, and renal disease and hemodialysis.

In the skin disease area, we are focused on increasing the market penetration of CORECTIM, a non-steroidal topical JAK inhibitor that is a new option for the treatment of atopic dermatitis. At the same time, we are working to ensure smooth development, an early launch, and market penetration of JTE-061 (intended indication: atopic dermatitis/plaque psoriasis), for which we are currently applying for marketing approval, TO-208 (intended indication: molluscum contagiosum), which is currently in development, and NAC-GED-0507 (intended indication: acne), which was in-licensed this January. With the addition of these products under development to our product lineup, which already includes existing products such as CORECTIM and ANTEBATE, this will enable Torii to offer a product lineup for a wide range of conditions in the skin disease area. We believe that these will be important growth drivers toward achieving "VISION2030."

Similarly, we believe that the allergens area has a role to play as a growth driver for achieving "VISION 2030." In particular, by promoting allergen immunotherapy, we are aiming for expanded growth for CEDARCURE, an allergen immunotherapy for cedar pollen allergy, and MITICURE, an allergen immunotherapy for dust mite allergies. In addition, we will continue to develop GRAZAX, an allergen immunotherapy drug for grass pollen allergies in-licensed this December. We hope to launch it quickly and achieve market penetration. In May, increased production of CEDARCURE was mentioned as part of the hay fever countermeasures compiled at a meeting of cabinet ministers, and the Ministry of Health, Labour, and Welfare has also requested that we ensure a stable supply. As such, we are working to improve and expand our systems—for example, establishing a Source Materials Procurement Department to centrally manage the acquisition of cedar pollen or make decisions on capital investments in manufacturing facilities for active pharmaceutical ingredients—and will continue steadily to put measures in place that will ensure stable supply.

In the renal disease and hemodialysis area, we hope to continue to support many patients by offering a broad lineup of products while also effectively utilizing the knowledge and information we have cultivated in this area. Specifically, for Riona, which has been approved as a treatment for hyperphosphatemia and has an additional indication for iron-deficiency anemia, we will expand the range of targeted medical departments to include departments such as obstetrics and gynecology, and engage in information provision and collection activities. In addition, we will continue to work to broaden the penetration of ENALOY, a treatment for renal anemia that launched in December 2020.

To meet these initiatives, it is vital to carry out information provision and collection activities based on a high level of expertise. For this reason, in January 2021, we established the Human Resources Development Department to educate our MRs and to improve their information and knowledge levels. Further, since the nature of information provision and collection activities has changed dramatically due to factors such as the spread of COVID-19 and impending changes to how doctors work, we are also actively investing in ways to diversify our points of contact with medical facilities, including by establishing new ways to provide and collect information using digital technology.

✓ Acquisition of new in-licensed products

The continual discovery and sale of new drugs are essential for pharmaceutical companies to grow sustainably. Since in-licensing is an effective way for a company like ours, with limited research and development capabilities, to acquire new drugs, we are vigorously engaging in exploratory activities and business investments that will help facilitate in-licensing.

In addition to independent activities by relevant departments, we also collaborate with JT. With locations overseas, JT is able to search broadly, mainly in Europe and the US, for information on potential new products for in-licensing. When necessary, we also rely on external agencies and investments in life science funds to gather information. The targets of our searches are not limited to diseases within our franchise areas. They also include peripheral areas (mainly immunity and inflammation), and we are expanding our activities to areas where we think we can maximize the value of our in-licensed products.

As we select and negotiate for promising in-license products based on information received, it is important to determine whether the products we are considering for in-licensing have the potential to become innovative pharmaceuticals that can fulfill needs that are currently unmet in the field. It is necessary to accurately evaluate the value of products being considered for in-licensing, taking into account criteria such as the difficulty of development and the potential profitability when brought to market. To improve these capabilities, we are focused on personnel development, such as properly understanding market trends and needs in the medical field, as well as acquiring advanced specialized knowledge about diseases.

Furthermore, in terms of responsibilities outlined in our collaborative structure within the JT Group, JT is responsible for research and development, while Torii is responsible for manufacturing, sales, and promotional activities. In principle, JT introduces and develops in-licensed products while we manufacture and sell those products; but in cases where an in-licensed product is not part of JT's areas of focus, we can utilize our experience and know-how to introduce and develop the product independently. Some recent examples are TO-208, NAC-GED-0507, and GRAZAX, which are all in-licensed products we are introducing and developing.

In cases like these, Torii is responsible for all of the development costs, but we also enjoy all of the profits. We are currently in a financial position that enables coverage of such costs, so we intend to actively challenge ourselves to introduce and develop products. We will carefully ascertain risk factors like feasibility and development difficulty, and strive to mitigate risks as much as possible.

- Period of concentrated business investments until 2027

To achieve the goals of VISION2030 and to ensure sustainable growth beyond 2030, we are more engaged than ever in making business investments for new in-licensed products.

To achieve sustainable growth as a pharmaceutical company, the continuous discovery and sale of new drugs is essential; but in a company like Torii with limited research and development capabilities, an effective way to acquire new drugs is through in-licensing. We are aware of the need to continue to prioritize investments, such as acquiring new in-licensed products, that will contribute to future growth, and we have dedicated the five years from 2023 until 2027 as a period of concentrated business investments. To achieve the goals of VISION2030 and enable sustainable growth beyond 2030, we calculate Torii will need to make business investments of approximately ¥40 billion over those five years.

■ Sources of competitive strength

The main sources of Torii's competitive strength in realizing our corporate philosophy, "Torii Pharmaceutical's Purpose," as well as our medium- to long-term business vision, "VISION2030," are our human capital, our intellectual capital, and our unique business model.

✓ Human capital

We are focusing on the following initiatives to achieve VISION2030

- ➢ Maximizing the value of existing and developing products (= delivering the true value of our pharmaceuticals to medical professionals and patients)
- ➢ Acquisition of new in-licensed products (=finding and acquiring pharmaceuticals that are valuable)

In addition to the above, "stable supply and quality assurance of our pharmaceuticals" and "compliance" are the foundation of our operations.

To steadily execute the initiatives listed above as well as other core business operations, the following human resources are an important source of our competitive strength.

- ➢ Personnel who have the discernment and negotiating skills needed to find and acquire valuable pharmaceuticals from around the world.
- ➢ Personnel with strong scientific and compliance knowledge who are able to accurately grasp the needs in the field of medicine, who can increase the value of developing and existing products, and who can deliver these properly to both medical professionals and patients.
- ➢ Personnel who are highly specialized and who can reliably execute and ensure a stable supply of high-quality pharmaceuticals.
- ➢ Highly specialized back-office personnel who can contribute to maximizing front-office activities while consistently meeting their responsibilities to stakeholders
- ➢ Personnel who can partner appropriately on each project, increasing value through collaboration

- ➢ Personnel who are always able to embody and practice TORII's POLICY

- ✓ Intellectual capital

  In "Torii Pharmaceutical's Purpose," we emphasize that we will "take on the challenge of contributing to healthcare that only we can make." To that end, we believe that together with human capital, the expansion of our lineup of valuable new drugs and our development pipeline are important sources of our competitive edge.

  We have a long track record of developing and selling distinctive pharmaceuticals in the areas of skin disease, allergens, and renal diseases and hemodialysis. Torii Pharmaceutical's strengths are the high level of expertise we have cultivated, our trust-based relationships with medical professionals, and our powerful presence in the field.

  In particular, the addition of products that are under development to our product lineup will enable Torii to offer a product lineup for a wide range of conditions in the skin disease area. In the allergens area, allergen immunotherapy has become a focus, including the government's measures to combat allergies such as hay fever, so demand for CEDARCURE and MITICURE is increasing. We believe that these products will be important growth drivers toward achieving "VISION2030."

  Going forward, in an effort to enhance and build up our unique product lineup and development pipeline, we will continue to focus on finding and acquiring new drugs in our franchise areas, while also working to find and acquire new drugs in areas peripheral to those (mainly the immunology and inflammation fields).

- ✓ Superior business model

  Following the structural changes outlined in "Medium-Term Management Plan 2021," we no longer have in-house factories, and our research and development functions are minimal. By concentrating our resources on the core functions of the value chain, we have been able to achieve a stable profit structure with streamlined management, enabling Torii to respond agilely and flexibly to changes both in and outside the Company. Given the accelerating pace of change in the industry, this benefit is not insignificant. We compensate for the lack of in-house manufacturing and limited R&D capabilities by collaborating with external companies with high levels of expertise (through outsourcing and in-licensing, etc.), but the specialized abilities of external companies are getting stronger. By selecting the most suitable partner for each case and flexibly building and enhancing cooperative systems, we maximize the value we deliver to the medical field.

In addition, JT and the Company have established an efficient collaboration system by building an integrated value chain, with JT responsible for research and development and Torii Pharmaceutical for manufacturing, sales, and promotion activities. The advantages of this system for us are as follows:

- Using this efficient collaboration with JT, we can in-license and sell pharmaceuticals discovered and developed by JT, while also flexibly and proactively making necessary investments in Torii's areas of expertise (for example, allergens, TO-208, etc.).
- When we acquire in-licensed products from outside the JT Group, we can use JT's network and scientific knowledge to search for and evaluate in-licensed products. Even in cases where we are independently in-licensing or developing a product, we can get needed support from JT (such as knowledge, know-how, or human resources).

Using this unique business model, we will strive to achieve the goal set out in VISION2030: "to become a pharmaceutical company with a strong presence in the medical field and that deeply understands its needs, that effectively collaborates with related parties to meet those needs, and that finds and delivers valuable new medicine with agility and a high level of expertise."

② Improving ROE

- Approach to capital cost and capital profitability

  At Torii, our approach is to stimulate continuous growth in sales and profit through business investment, aiming to improve medium- to long-term corporate value in a manner conscious of both capital cost and capital profitability. Similarly, the Board of Directors holds discussions designed to achieve management mindful of capital cost and share price.

  In every facet of business, from in-licensing to the promotion of new drug development, capital cost is considered as part of our decision-making process. In a crowded and competitive market, gaining in-licensed products requires intense business negotiations. Given this, the wide disclosure of capital cost—a key data point affecting competitiveness—could cause disadvantages to emerge in negotiations pertaining to the Company's future investments. For this reason, while we do not disclose details regarding capital cost, we calculate it based on CAPM and conduct regular reviews. External advisors have found our method for calculating capital cost to be appropriate.

As a capital profitability indicator, we emphasize ROE rather than ROIC, with the rationale that although loans and other financing methods are considered as needed, fundamentally the Company should use its own funds when it comes to business investment.

Our approach is to aim for ROE of 8% or more by 2030, or as soon as possible thereafter. To achieve this, we have positioned the five years to 2027 as a period for concentrated business investments. Meanwhile, with respect to upfront in-licensing payments and milestone payments in line with development progress, these may be reported as assets rather than as expenses. This step, plus the fact that in-licensing will not necessarily lead to a compression in shareholder equity, and depreciation will not begin until the product is launched; that it takes around five years to launch in-licensed products; and that several years are required to expect sufficient sales and profits after launch as a mainstay product, means that compressing shareholders' equity and increasing profits in the short term is difficult, and that a certain amount of time is needed to improve ROE.

In terms of specific ROE targets and the achievement timeline, while we will continue to invest in R&D, we plan to disclose this information once a certain degree of progress is made in concentrated business investments, when an outlook for medium- to long-term growth will becomes possible.

This will be a period to aim, first and foremost, for profit growth (a component of ROE) through aggressive business investments. Accordingly, as targets for "VISION2030," we have set sales and operating income as key indicators. In setting targets for "VISION2030," we also considered these from the standpoint of generating profit over and above capital cost.
Given the intent to aggressively conduct R&D investment to acquire future in-licensed products, we have set operating income before R&D expenses as a profit-side numerical target under the medium-term management plan. Conversely, we have set operating income as a "VISION2030" target since we plan for some degree of

completion of concentrated investments by that time, although investments in R&D will continue in 2030 and beyond.

- Use of cash reserves

  For business investment, the basic principle remains to use cash reserves as we aggressively invest, with borrowing and other financing considered in the event that additional funds are needed.

  When weighing the necessity to invest with cash reserves, a number of factors are considered, including tough negotiations among a crowd of competitors to acquire in-licensed products amid tight competition; the possibility of multiple opportunities to acquire promising in-licensed products simultaneously; and that many sources are venture companies with high needs with respect to funding. Accordingly, having adequate cash reserves to contribute cash flexibly is a vital element in acquiring in-licensed products.

  Furthermore, while the fundamental rule is to use cash reserves for business investments, due to rising hurdles in new drug development, cases exist in which one-time payments for in-licensing, milestone payments and development expenses together total over ¥10 billion for an individual project, and where multiple in-licensing happens simultaneously. For these reasons, we are exploring the need for borrowing and other fund procurement given the level of cash reserves.

  At present, the level of cash reserves is high compared to prior to 2018, reflecting a one-time payment received in 2019 accompanying the return of anti-HIV drug sales rights. Since this is a one-time payment for future profits that would have been received, our view is to prioritize these funds for business investments for sustainable growth going forward.

  Please refer to the explanatory section under capital allocation to learn more about the specific utilization policies regarding cash reserves.

③Shareholder Return Policy

- Basic policy regarding shareholder returns

  We recognize the return of appropriate profit to shareholders as an important management issue. With regard to shareholder returns, our basic policy is to pay ongoing and stable dividends, while also holding that increasing corporate value over the medium to long term through business investments will meet shareholders' expectations.

Based on this, we will prioritize using cash reserves for business investments. In this way, keeping capital cost in mind, we will work to achieve sustainable growth in sales and profits and to increase corporate value over the medium to long term.

Regarding treasury stock, we will determine whether to do buybacks and, if so, at what scale after considering a comprehensive set of factors, such as the business environment and the progress of investments.

■ Capital allocations through 2027

To increase corporate value over the medium to long term, recognizing that we need to prioritize investments—such as acquisition of new in-licensed products—that will contribute to future growth, we have dedicated the period up to the end of 2027 as one of active business investments, and will use our cash reserves to invest aggressively.

In the pharmaceutical business, there is a significant and rapid decline in sales when an existing product's patent period ends and generic versions are launched, so companies recognize that it is essential to continuously discover and sell new drugs.

In particular, for a company like ours with limited research and development capabilities, in-licensing is an effective means of acquiring new drugs. To ensure rapid recovery from the loss of business volume following the return of exclusive rights for anti-HIV drug sales, as well as the achievement of the goals of the medium- to long-term business vision "VISION2030" and the realization of medium- to long-term sustainable growth, the Company needs to continue to actively pursue business investments aimed at in-licensing. Given the failure risks inherent in pharmaceutical development, we will establish a structure for acquiring promising in-licensed products and build a development pipeline that is sufficient in both quality and quantity.

The tight competition to acquire in-licensed products requires tough negotiations. Also, there is a possibility of multiple opportunities to acquire promising in-licensed products occurring simultaneously, as well as a risk of development failure after in-licensing, and it takes some time until profitability. For these reasons, we need to retain some cash reserves during the period of active business investment up to 2027.

Regarding the business investment plan through 2027, due to factors such as the development status of the licensing companies, it may be difficult to form our own plans, and there is the possibility that this could affect our competitive relationships with rival companies. Therefore, we have refrained from offering plans that include targets for the number of acquisitions, acquisition timing, or individual investment amounts.

Concerning business investments through 2027, we plan to invest approximately ¥40 billion, including for the in-licensing of new products. With these investments, we aim to achieve sustainable sales and profit growth and improve corporate value over the medium to long term, while also being aware of capital cost.

As of the end of September 2023, we have already decided on investments totaling approximately ¥5 billion. Further, in December 2023, we decided to enter into a licensing agreement for the allergen immunotherapy treatment for grass pollen allergies (GRAZAX) and to make milestone payments according to the progress of development.

The primary business investments decided so far are:

- ✓ 2023: Approximately ¥1.6 billion in a one-time payment following the completion of a licensing agreement with Nogra for an acne treatment drug (NAC-GED-0507)
- ✓ 2023: Capital investment of approximately ¥3 billion to increase the production of CEDARCURE
- ✓ 2023: Milestone payments of approximately ¥2 billion following the completion of a licensing agreement with ALK for the allergen immunotherapy drug for grass pollen allergies (GRAZAX).

Concerning shareholder returns, we will provide ongoing and stable dividends in line with our basic policy. We intend to be flexible in our review of dividend levels by periodically evaluating our financial situation and the progress of our future development pipeline. Regarding treasury stock, we will determine whether to do buybacks and if so, at what scale after considering a comprehensive set of factors, such as the business environment and the progress of investments.

It is necessary to hold some cash reserves in order to ensure that we can continue to make business investments beyond 2028, and that we can fulfill our responsibility to provide a stable supply of products.

- Shareholder return indicators

  Given the nature of the pharmaceutical business, where profits fluctuate significantly due to factors such as R&D investments, we think it is appropriate to use dividend on equity (DOE), which is based on shareholders' equity, as an indicator of shareholder returns instead of dividend payout ratio, which is influenced by net income for the current term.

  While emphasizing sales and profit growth through business investment, in the future, we hope to achieve a level that is comparable to our competitors (currently around 3.5%). However, since it takes time for new in-licensed products to be developed and launched on the market and it takes several years after launch to realize adequate sales and profits for the drug as a main product, we expect it to be difficult to condense shareholders' equity and increase profits over the short term. It will take at least five years for DOE to improve significantly, but during that time we will continue to provide stable dividends to shareholders per our basic policy.

  We plan to announce the timeline for achieving the DOE target once we have made a certain level of progress with our concentrated business investments and can forecast medium- to long-term growth.

  We view the period up to 2027 as the time during which we should focus on active business investments. During that time, we will routinely evaluate factors such as the degree to which business investments have enhanced our development pipeline and financial position, and will flexibly consider enhancing shareholder returns; this includes options such as increasing dividend levels.

- Dividends for the current fiscal year

  Dividends for the current fiscal year will be determined based on our basic policy of paying ongoing and stable dividends while taking into consideration the results of the current fiscal year, as well as plans for the next fiscal year and beyond.

④Corporate Governance Improvement

- Previous initiatives

In our medium-term management plan, we have positioned strengthening corporate governance as a key initiative and recognize the following issues:

  - ✓ Strengthening the supervisory function of the Board of Directors and achieving faster decision-making by management.
  - ✓ Guaranteeing transparency in the system for reflecting the opinions of minority shareholders as well as the system for appropriately supervising and evaluating management.
  - ✓ Ensuring diversity among Board members (recruiting women and people with management experience, etc.).

At its November 8th meeting, the Board of Directors resolved to transition to a company with an audit and supervisory committee as one way to address these issues.

Through these measures, we will enhance the supervisory function of the Board of Directors and continue to consider ways to achieve even quicker decision-making by management as we strive to improve and strengthen corporate governance. From the perspective of preserving independence from controlling shareholders and protecting minority shareholders, we will keep the structure in which the majority of the Board of Directors are independent outside directors. At the same time, in an effort to further improve the transparency, objectivity, and fairness of procedures related to the nomination and remuneration of Directors and to improve deliberations, we plan to establish a Nomination and Remuneration Advisory Committee, comprised solely of independent outside directors, as a voluntary advisory committee for the Board of Directors.

The number of members of the Board of Directors will also increase from three to five, three of whom will be independent outside directors (including one woman).

We proposed this Board structure to set an executive configuration that will help improve corporate value and shareholder interests, and also to provide a balanced composition of personnel with extensive experience and expertise in corporate management and management strategy, legal affairs, compliance and risk management, finance and accounting, and capital markets. This is best for creating a structure for ensuring that the system can conduct appropriate and effective audits. These proposals are scheduled to be approved at the 132nd General Meeting of Shareholders to be held on March 27, 2024.

- Direction going forward

  We will continue to improve corporate governance in order to gain even more trust from capital markets.

Under the new Board structure, while working to reflect diverse values in management, thereby increasing corporate value, we will continue to pursue independence from controlling shareholders and to protect minority shareholders.

We will also take additional action designed to enhance communication with capital markets. Specifically, we will increase opportunities for dialogue with Directors (including Outside Directors), issue integrated reports, continue to hold regular financial result briefings, and actively engage in discussions with investors through one-on-one and small group meetings.