

The Pathologies Undermining Toho HD's Corporate Value

Dec 2025



Executive Summary

Executive Summary (1/3)

Neglect of Directors' Duties (Failure to Exercise the Duty of Due Care)

- **In August 2025, We Submitted a Request to Inspect Litigation Records to the Public Prosecutors Office and Obtained the Written Statements Given in 2020 at the Tokyo District Public Prosecutors Office by Current CEO Edahiro and COO Umada Regarding the JCHO Bid-Rigging Case**
 - These written statements bear the signature and seal of the deponent and are formal documents treated as legal evidence by the court
- **The Written Statements record That Top Management Themselves Regarded Misconduct as a “Necessary Evil” and That the Organization as a Whole Strategically Tolerated and Got Involved in Violations of Laws and Regulations**
 - Both CEO Edahiro and COO Umada testified that similar bid rigging had occurred even before the JCHO bid-rigging case
 - CEO Edahiro testified that, to secure sales and profits, he strategically tolerated bid rigging and took no corrective action
 - COO Umada testified that he not only tolerated bid rigging and took no corrective action, but also personally engaged in the misconduct in the past
- **Statements Show That Directors, Including Mr. Edahiro and Mr. Umada, Previously Breached Their Duty of Due Care Breach of the Obligation to Establish Internal Controls** : Despite having formulated internal recurrence prevention measures after the 2003 bid-rigging sanction, bid-rigging occurred in quick succession in the JCHO and NHO cases
 - **Breach of the Duty to Monitor** : Although Mr. Edahiro and Mr. Umada were aware of bid-rigging prior to the JCHO case, they took no corrective measures
 - **Breach of the Obligation to Preserve the Value of Subsidiary Shares** : In the JCHO and NHO bid-rigging cases, significant losses were incurred through surcharges and settlement payments to Toho Pharmaceutical, a subsidiary of Toho HD
- **There is a Risk that Directors may be Neglecting Their Duties (Failure to Exercise Duty of Care) in the Ongoing Process, and There are Concerns about the Recurrence of Scandals in the Future**
 - Even when undisclosed scandals in subsidiaries are suspected, Toho HD makes no effort to conduct fact-finding or root-cause investigation
 - Despite exposed organizational scandals, Toho HD refuses third-party fact-finding and recurrence prevention measures
- **Since a short one and a half months after we shared The Written Statements indicating a breach of the duty of due care and duty of loyalty with Toho HD, a takeover defense plan was introduced and we were informed that we have a “short-term capital gain objective,” we are disclosing this information so that our views can be properly understood by our shareholders**

Pathology of Toho HD and the Cycle of Corporate Value Destruction (1/2)

- The Pathology Behind Toho HD's Failure to Exercise the Duty of Due Care and Disregard of Directors' Duties : Culture of Concealment and Escape into Formalistic Responses
 - Matters Demonstrating the Pathology of a Culture of Concealment:
 - ✓ ①Endorsement of Misconduct as a "Necessary Evil": Organizational endorsement of misconduct as a "necessary evil" for business continuity and the company
 - ✓ ②Rejection of "Objective Review" of Misconduct: Even the outside directors responsible for overseeing management have refused to investigate misconduct, and the management team has rejected third-party fact-finding and root-cause investigation
 - ✓ ③Disregard of Misconduct and False Explanations to Shareholders: At the previous annual general meeting, management hid from shareholders the written statements showing their involvement in and tolerance of scandals and provided false explanations
 - Matters Demonstrating the Pathology of Escape into Formalistic Responses:
 - ✓ ①Recurrence Prevention Measures as a "For the Authorities" Ritual: Recurrence prevention measures for past scandals have been performed as rituals to show "we responded," not to change the status quo
 - ✓ ②Alibi-Making Through "Findings Without Investigation": Even the special committee for governance enhancement has refused to consider fundamental reforms and has focused only on drafting formalistic recurrence prevention measures

Executive Summary (3/3)

Pathology of Toho HD and the Cycle of Corporate Value Destruction (2/2)

■ Toho HD's Pathology Has Created a Value-Destructive Negative Cycle

(Dependence on Misconduct → Abandonment of Negotiating Power → Resignation from Improvement)

- Matters Demonstrating Dependence on Misconduct:

- ✓ ① **Repeated bid-rigging**: bid-rigging was exposed in 2003, 2019, and 2021, and recurrence prevention measures were formulated each time, yet scandals continue to recur
- ✓ ② **Involvement in improper transactions showing excessive deference to customers**: blind subordination to customer demands, involvement in improper transactions in the Nihon University case that other companies refused
- ✓ ③ **Endorsement of misconduct by top management as a "necessary evil"**: Toho HD continues to tolerate industry-embedded bid-rigging as a "necessary evil" and engaged in improper transactions such as excessive deference to customers in violation of compliance

- Matters Demonstrating Abandonment of Bargaining Power:

- ✓ ① **Abnormal business practices that amount to surrendering pricing power**: Toho HD continues to do business while accepting abnormal practices that abandon its right to set prices
- ✓ ② **Irrational operations driven by excessive deference to presumed customer wishes**: Toho HD has abandoned efforts to strengthen its bargaining power, endorsing excessive deference to customers and continuing irrational logistics operations

- Matters Demonstrating Resignation from Improvement:

- ✓ ① **Long-standing disregard of government corrective recommendations**: Despite repeated government calls to improve abnormal business practices and irrational logistics operations, Toho HD continues to abandon any corrections
- ✓ ② **Resignation at the frontline toward making improvements**: Given employee reviews and the findings of the special committee on governance, it is clear that even frontline staff have accepted the status quo and given up on improvement
- ✓ ③ **Prolonged decline in gross margin and failure to take actions on a low-margin, high-volume model**: The gross margin has continued to decline over many years, and CEO Edahiro has effectively accepted this situation

Neglect of Directors' Duties (Failure to Exercise the Duty of Due Care)

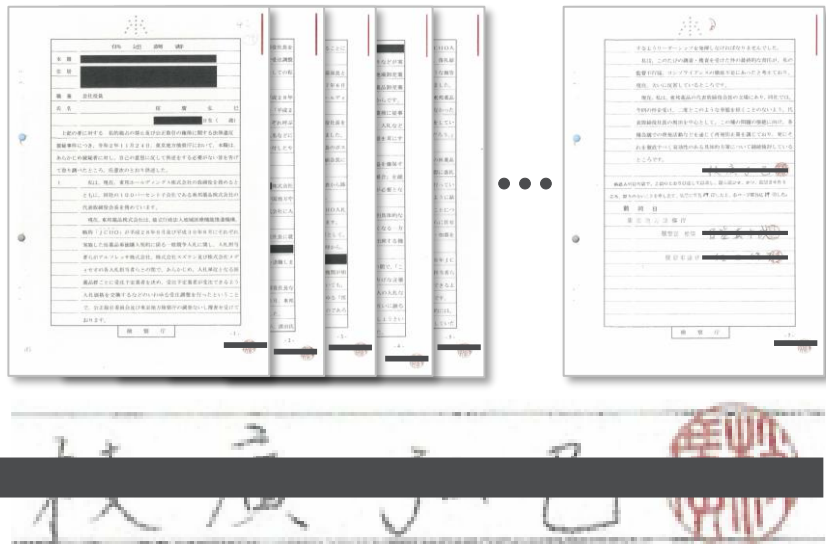
In August 2025, We Submitted a Request to Inspect Litigation Records to the Public Prosecutors Office and Obtained the Written Statements Given in 2020 at the Tokyo District Public Prosecutors Office by Current CEO Edahiro and COO Umada Regarding the JCHO Bid-Rigging Case¹



Written Statement of CEO Edahiro

■ In connection with the alleged violation of laws and regulations concerning the JCHO bid-rigging case, the suspect, Mr. Edahiro, made statements to the Public Prosecutors Office regarding the outline and background of the case, the existence of similar cases, his own involvement, and the status of initiatives for preventing recurrence

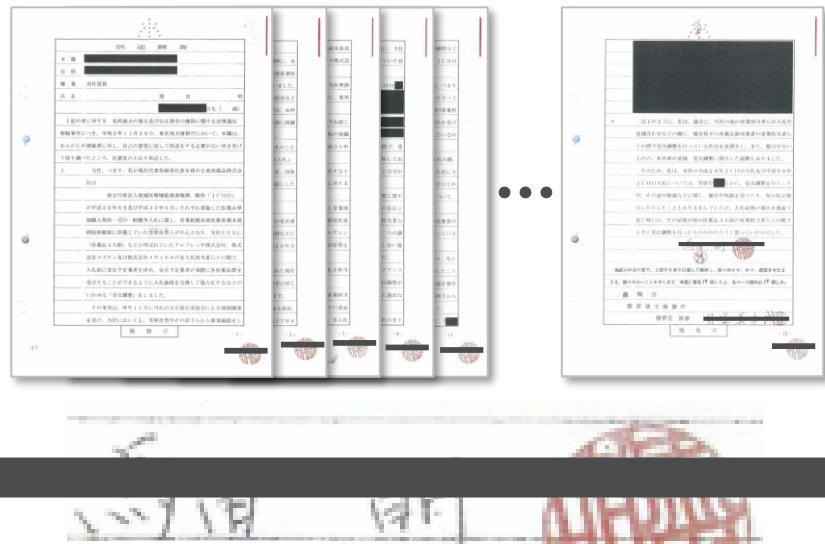
Case 2020 (Tokuwa) No. 3100
Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade



Written Statement of COO Umada

■ In connection with the alleged violation of laws and regulations concerning the JCHO bid-rigging case, the suspect, Mr. Umada, made statements to the Public Prosecutors Office regarding the outline and background of the case, the existence of similar cases, his own involvement, and the status of initiatives for preventing recurrence

Case 2020 (Tokuwa) No. 3100
Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade



These Written Statements Bear the Signature and Seal of the Deponent and Are Formal Documents Treated as Legal Evidence by the Court

A Written Statement Is a Document Prepared under the Formal Procedures Set Forth in the Code of Criminal Procedure

- The written statements accurately record the testimony of suspects and witnesses, and the contents have been confirmed by the witnesses themselves to contain no errors

“When the written statement described in the preceding paragraph has been prepared, **it shall be shown or read to the suspect, and the suspect shall be asked whether there are any errors.** If the suspect requests any additions, deletions, or corrections, such statements shall be entered into the record.

If the suspect **states that there are no errors in the record, the suspect may be requested to sign and seal it.** However, this shall not apply if the suspect refuses to do so.”

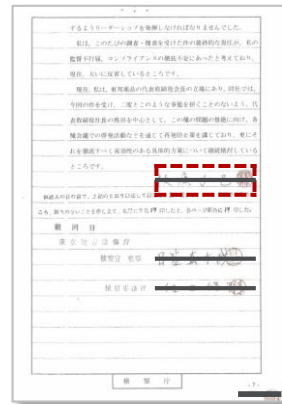
Article 198, Paragraphs 4 and 5 of the Code of Criminal Procedure

- A written statement signed or sealed may be admitted as evidence

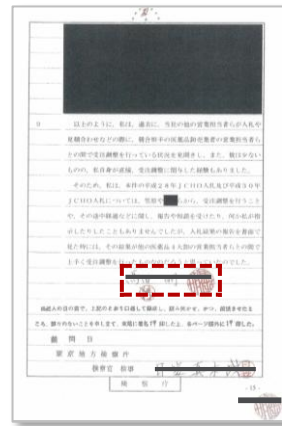
“A **written statement** prepared by a person other than the defendant, or a document recording that person’s statement **bearing the signer’s signature or seal, (omitted) may be admitted as evidence**¹.”

Article 321, Paragraph 1, Main Clause of the Code of Criminal Procedure

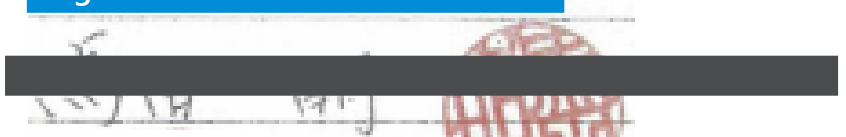
CEO Edahiro and COO Umada Acknowledge the Written Statements as True by Signing and Sealing Them



Signature and seal of CEO Edahiro



Signature and seal of COO Umada



Source: Article 198, Paragraphs 4 and 5 of the Code of Criminal Procedure; Article 321, Paragraph 1, Main Clause of the Code of Criminal Procedure; Case 2020 (Tokuwa) No. 3100Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade Written Statement of CEO Edahiro; Written Statement of COO Umada
Note: [1] We Have Already Obtained the Written Statements Prepared by the Prosecutors and Signed and Sealed by CEO Edahiro and COO Umada, Which Constitutes a “Document Admissible as Evidence” under Article 321, Paragraph 1 of the Code of Criminal Procedure

The Written Statements record That the Executives Themselves Regarded Misconduct as a “Necessary Evil” and That the Organization as a Whole Strategically Tolerated and Got Involved in Violations of Laws and Regulations (1/2)

CEO Edahiro Testified that, to Secure Sales and Profits, He Strategically Tolerated Bid-Rigging and Took No Corrective Action



CEO Edahiro

Written statement by Mr. Edahiro from the prosecutor’s questioning regarding JCHO

“Even I myself, as Representative Director and President, although I assumed that Toho pharmaceutical was probably engaging in bid coordination and similar practices with competitors at the time of bids or competitive quotations, **did not directly instruct** the personnel in charge of bidding or their supervisors **to refrain from such bid coordination, nor did I take any decisive measures to prevent such conduct**, because I **prioritized the desire to secure Toho Pharmaceutical’s sales and profits and to maintain its order share.**”

“In the pharmaceutical wholesale industry, which is often described as a low-margin, high-volume business, I believed that the quickest way **to secure sales and profits** was to continue existing trading relationships in pharmaceuticals and to maintain so-called *cho-ai* (preferred transactional relationships). **I also thought it was only natural that, for that purpose, there would be cases where bid coordination and similar practices would be necessary.**”

“At those meetings, **I exchanged suggestive remarks with executives of competing companies, saying things like, ‘Let’s continue to cooperate going forward.’** I understood such words to include the meaning that, at the time of pharmaceutical purchasing bids and the like, we would each yield where appropriate so that everyone could secure sales and profits, and **that we would coordinate orders among ourselves to manage things smoothly, and I responded accordingly.**”



The Written Statements record That Top Management Themselves Regarded Misconduct as a “Necessary Evil” and That the Organization as a Whole Strategically Tolerated and got Involved in Violations of Laws and Regulations (2/2)

COO Umada Testified that He Not Only Tolerated Bid-Rigging and Took No Corrective Action, but Also Personally Engaged in the Misconduct

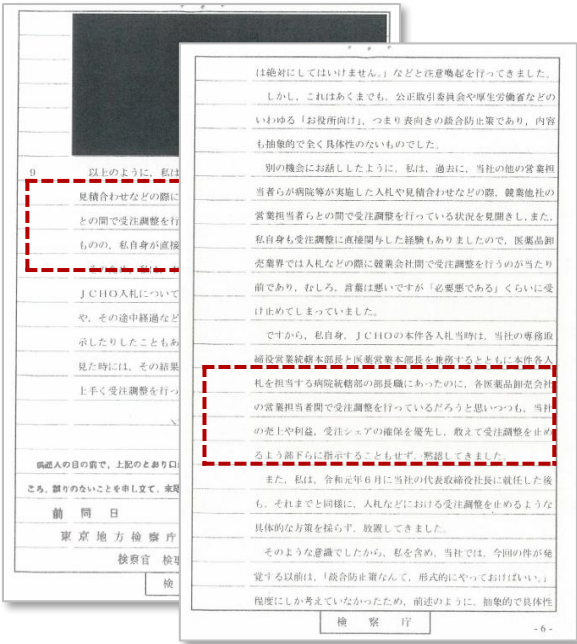


COO Umada

Written statement by Mr. Umada from the prosecutor’s questioning regarding JCHO

“In the past, I saw and heard situations in which other sales personnel at our company engaged in order coordination with sales personnel of competing pharmaceutical wholesalers at the time of bids or competitive quotations, and although the number of instances was small, **I myself also had experiences of directly participating in such order coordination.**”

“Although I assumed that sales personnel of each pharmaceutical wholesaler **were coordinating orders among themselves, I prioritized our company’s sales, profits, and order share and therefore deliberately refrained from instructing my subordinates to stop such order coordination, effectively condoning it.**”



This New Fact Shows that the Misconduct Was Not Limited to the Front Line but Was an Organizational Problem Stemming from Decisions and Lack of Control of Executive

Source: Case 2020 (Tokuwa) No. 3100Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade Written Statement of COO Umada

The Written Statements Also Indicate that Similar Cases to the JCHO Bid-Rigging Incident Had Occurred in the Past

Both CEO Edahiro and COO Umada Testified that Similar Bid-Rigging Had Occurred Even Before the JCHO Bid-Rigging Case



CEO Edahiro

Written statement by Mr. Edahiro from the prosecutor’s questioning regarding JCHO

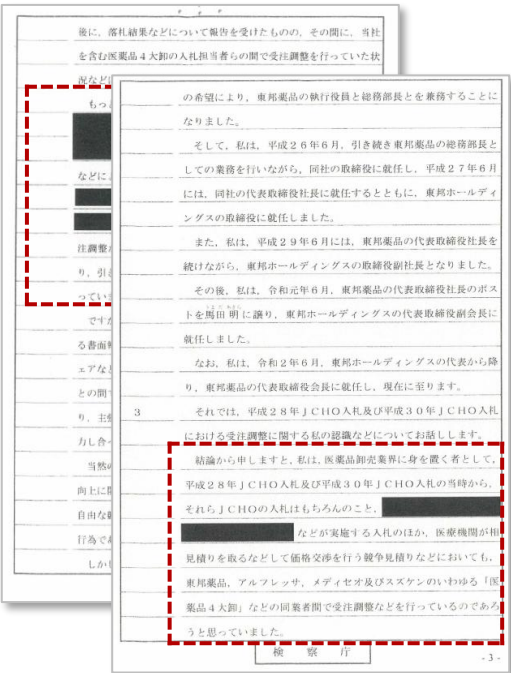
“As someone working in the pharmaceutical wholesale industry, from the time of the 2016 JCHO tender and the 2018 JCHO tender onward, I believed that **not only for those JCHO tenders** but also for [redacted], **orders were likely being coordinated among competitors, including Toho pharmaceutical, Alfresa, Mediceo, and Suzuken, the so-called ‘Big Four’ pharmaceutical wholesalers.**”



COO Umada

Written statement by Mr. Umada from the prosecutor’s questioning regarding JCHO

“However, based on my own past experience, **I had long been aware that**, in joint pharmaceutical tenders by JCHO [redacted] and others [redacted], order coordination among pharmaceutical wholesalers, including our company, **was commonplace, and I understood that similar order coordination was continuing to take place.**”



Statements Show that Directors, Including Mr. Edahiro and Mr. Umada, Previously Breached Their Duty of Due Care and Duty of Loyalty

Year In Which Each Case Was Exposed¹ :

	Mr. Edahiro's Positions	Mr. Umada's Positions	Overview
2003	Miyagi Prefecture Price Cartel Case		<ul style="list-style-type: none">Ten pharmaceutical wholesalers formed a price cartel at a hotel in Sendai CityIt was ordered to pay a surcharge of 40 million yen
2019	Toho Pharmaceutical	Toho Pharmaceutical	<ul style="list-style-type: none">"Recurrence prevention measures" were implemented in the Miyagi Prefecture caseNevertheless, Mr. Edahiro and Mr. Umada tolerated and were involved in similar casesThey also failed to take appropriate corrective measures
	HD	HD	
	Parties: Toho Pharmaceutical	Parties: Toho Pharmaceutical	
2021	HD	HD	<ul style="list-style-type: none">Four pharmaceutical wholesalers repeatedly engaged in bid rigging in connection with bids for pharmaceuticals ordered by JCHOAn order was issued to pay a surcharge of 160 million yen, a fine of 250 million yen and settlement payments of 3.3 billion yen were incurred
	Parties: Kyushu Toho	Parties: Kyushu Toho	
	HD	HD	<ul style="list-style-type: none">Six pharmaceutical wholesalers engaged in bid rigging in pharmaceutical tenders in the Kyushu areaIt was ordered to pay a surcharge of 130 million yen

The period during which the written statements revealed the existence of similar cases that Mr. Edahiro and Mr. Umada tolerated or were involved in

Details of the Breach of the Duty of Due Care and Duty of Loyalty

Breach of the Obligation to Establish Internal Controls²

- Although internal recurrence prevention measures were formulated after the bid-rigging sanction in 2003, bid-rigging continued to occur in succession in the JCHO case and the NHO case
- Although Mr. Edahiro and Mr. Umada were aware of bid rigging prior to the JCHO case, they took no corrective action
- This demonstrates a long-term breach by members of successive boards of directors of their obligation to establish internal controls, as they failed for a long time to build an effective control system

Breach of the Duty to Monitor³

- This constituted a breach of their duty to monitor as directors, and as a result they caused the company significant losses in the form of surcharges, settlement payments, and other costs
- This constituted a breach of their duty to monitor as directors, and as a result they caused the company enormous losses in the form of surcharges, settlement payments, and other costs

Breach of the Obligation to Preserve the Value of Subsidiary Shares⁴

- Although they were aware of legal violations and scandals that would lead to impairment of the value of subsidiary shares, they took no corrective action as directors of Toho HD
- As a result, the value of the subsidiary shares was impaired by surcharges and other penalties, demonstrating a breach of their obligation to preserve the value of the subsidiary shares

Source: Company Disclosure Materials; Various News Articles; Case 2020 (Tokuwa) No. 3100Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade Written Statement of CEO Edahiro; Written Statement of COO Umada

Note: [1] The year in which Toho HD, Toho pharmaceutical, or Kyushu Toho was first publicly reported as being involved in the case (based on our research). Positions are as of the time when the case came to light or when the response was made; [2] The Obligation to Establish Internal Control Systems Is Stipulated in Article 399, Paragraph 1, Item 1 and Paragraph 2 of the Companies Act, and Its Content Is Specified in Article 110-4 of the Ordinance for Enforcement of the Companies Act. In Addition, the Status of Its Implementation Is Subject to Audit by the Audit and Supervisory Committee under Article 399-2, Paragraph 3, Item 1 and Article 130-2, Paragraph 1 of the Companies Act; [3] The duty of oversight is one aspect of directors' duty of due care (Articles 330 of the Companies Act and 644 of the Civil Code) and is also related to their duty of loyalty (Article 355 of the Companies Act); [4] The duty to preserve the value of subsidiary shares is an obligation derived from directors' duty of due care (Articles 330 of the Companies Act and 644 of the Civil Code) and duty of loyalty (Article 355 of the Companies Act); [5] A non-representative director for only part of the term

(Reference) In the Case of Seiki Tokyu Kogyo, a Shareholder Derivative Suit for Breach of the Duty to Monitor Resulted in an Award of Damages

Overview and Timeline of the Case

- Seiki Tokyu Kogyo received a surcharge payment order from the JFTC for violations of the Antimonopoly Act committed between 2011 and 2015
- The company treated the surcharge imposed by the JFTC as a loss to the company, and shareholders filed a shareholder derivative lawsuit seeking damages from the representative director and directors who were involved in the case through their acts and omissions
- The court found not only the directors who were directly involved in the cartel, but also the representative director who, despite recognizing the existence of the Antimonopoly Act violations, condoned them and failed to take corrective measures, to be in breach of their duty of due care and duty of loyalty

Year and Month	Event
2011-2015	: Occurrence of an Asphalt Mixture Cartel
2017	: On-site investigation by the Japan Fair Trade Commission
2019/7	: Surcharge payment order by the Japan Fair Trade Commission
2019/12	: Disclosure of the investigation report.
2020/12	: Filing of shareholder derivative lawsuit
2022/3	: Judgment for the plaintiff (District Court)
2023/1	: Dismissal of appeal (High Court)

Judgment and Assessment of the Shareholder Derivative Lawsuit¹

Defendant	Position at the Time of the Cartel	Reason for the Lawsuit
Mr. A	Representative Director and President	<p>"Mr. A was fully aware of the conduct that constituted violations of the Antimonopoly Act and acts falling under the crime of bid rigging, but failed to fulfill his obligation to establish a compliance management system. Had he promptly introduced corrective measures and put an appropriate management system in place, the violations would not have occurred and the surcharge payment order would not have been imposed."</p> <p>—Plaintiff's Press Release Regarding The Filing Of The Shareholder Derivative Lawsuit</p>
		<p>Court's Ruling</p> <p>Directors have an obligation, addressed to the company, to comply with all laws and regulations that the company must observe in the conduct of its business. However, Mr. A's conduct constituted condoning acts, addressed to P, as a business operator, that violated Article 3 of the Antimonopoly Act, which was required to comply with. (Omitted) Mr. A and the others should therefore be deemed to bear an obligation to compensate for the portion of the admitted surcharge amount corresponding to each of the claim amounts asserted by the plaintiff against them.</p> <p>—Tokyo District Court Judgment</p> <p>"This judgment shows that even directors who did not directly participate in illegal acts have a legal obligation to take proactive measures to prevent such acts once they are aware that unlawful conduct is occurring within the company. Therefore, if a director was aware of other officers' violations of laws and regulations, there is a high likelihood that the director will be deemed to have neglected their duties, even if they were not personally involved."</p> <p>Kato & Partners Law Office, Recent Important Case Law: Seiki Tokyu Kogyo Shareholder Derivative Lawsuit</p>

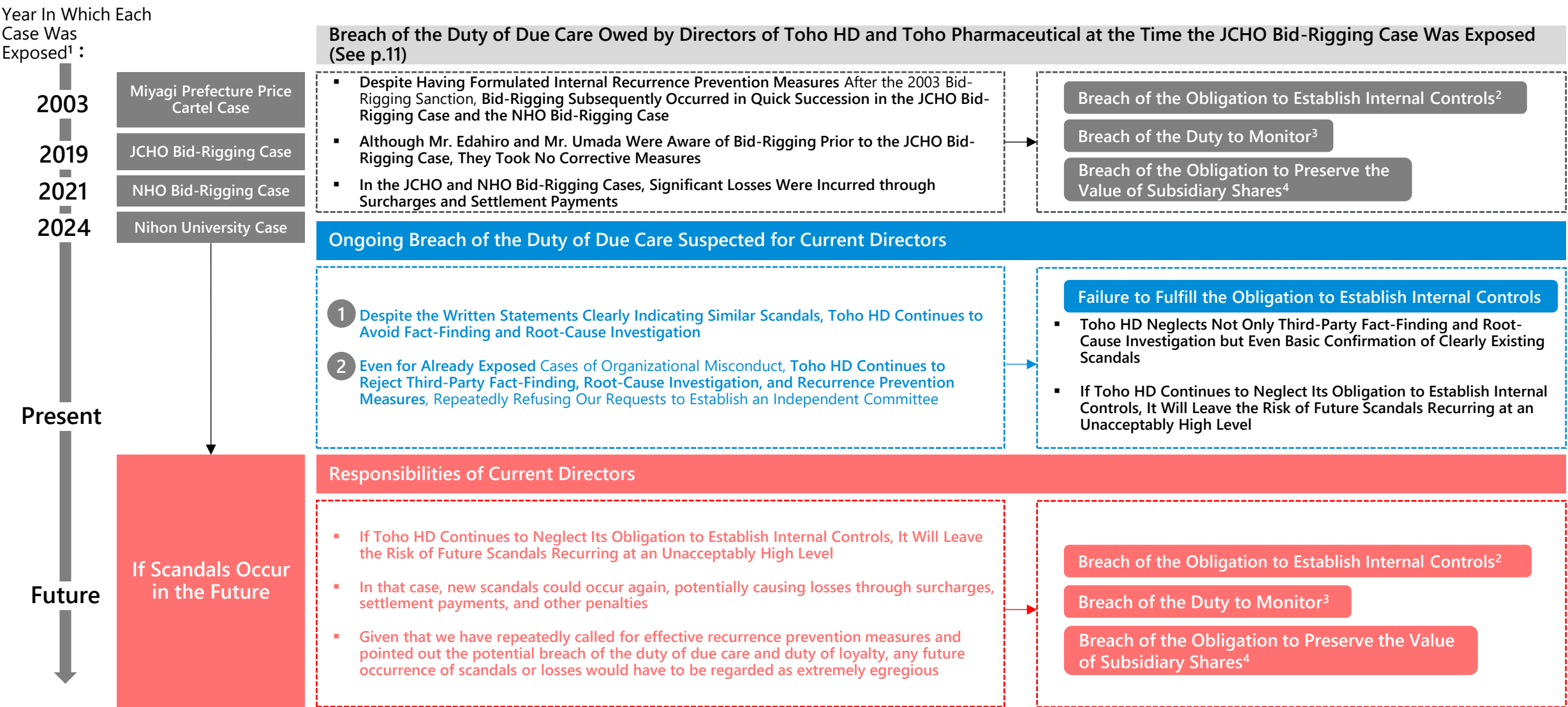
The Situation of Mr. A, Found Liable for Breach of the Duty of Due Care, Closely Resembles That of the Directors at the Time of the JCHO Case as Revealed in the Written Statements

Source: Plaintiff Disclosure Materials; Kato & Partners Law Office, "Recent Important Judicial Precedent: Seikitokyu Kogyo Shareholder Derivative Suit (Tokyo High Court Judgment, January 26, 2023, LEX/DB:25595301)." Original Source Within the Citation: Michihito Iseda, "Case Study," Law and Politics, Vol. 74, No. 3

Note: [1] In this shareholder derivative lawsuit, the defendants are four individuals: A, Representative Director and President; B, Deputy General Manager of the Business Promotion Headquarters and General Manager of the Products Division; C, Director and General Manager of the Business Promotion Headquarters; and D, Director and Deputy General Manager of the Business Promotion Headquarters and General Manager of the Construction Department (all titles as of the time the cartel occurred). The court held that B, C, and D had neglected their duties to the company by recognizing and directly participating in the price cartel, which constituted an illegal act, and ruled that they bear liability for damages.

[2] Refers to Century Tokyu Industries.

There is a Risk that Directors may be Neglecting Their Duties (Failure to Exercise of Duty of Care) in the Ongoing Process, and There are Concerns about the Recurrence of Scandals in the Future



Source: Case 2020 (Tokushima) No. 3100Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade Written Statement of CEO Edahiro; Written Statement of COO Umada

Note: [1] The year in which Toho HD, Toho pharmaceutical, or Kyushu Toho was first publicly reported as being involved in the case (based on our research). Positions are as of the time when the case came to light or when the response was made.; [2] The Obligation to Establish Internal Control Systems Is Stipulated in Article 399, Paragraph 1, Item 1 and Paragraph 2 of the Companies Act, and Its Content Is Specified in Article 110-4, of the Ordinance for Enforcement of the Companies Act. In Addition, the Status of Its Implementation Is Subject to Audit by the Audit and Supervisory Committee under 399-2, Paragraph 3, Item 1 and Article 130-2, Paragraph 1 of the Companies Act.; [3] The duty of oversight is one aspect of directors' duty of due care (Articles 330 of the Companies Act and 644 of the Civil Code) and is also related to their duty of loyalty (Article 355 of the Companies Act).; [4] The duty to preserve the value of subsidiary shares is an obligation derived from directors' duty of due care (Articles 330 of the Companies Act and 644 of the Civil Code) and duty of loyalty (Article 355 of the Companies Act).

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1 Even When Undisclosed Scandals Are Suspected, Toho HD Makes No Effort to Conduct Fact-Finding or Root-Cause Investigation

When Scandals Are Suspected, Fact-Finding and Root-Cause Investigation Are Essential

“every listed company thus **needs to respond resolutely to any scandal or signs of a potential problem** concerning its operations (or those of its group companies) **by quickly conducting a thorough factual investigation into the matter, clearly identifying the root causes**, and using its findings to implement measures for preventing the problem from recurring. Listed companies **are under enormous pressure to exercise this ‘self-cleaning’ process.**”

Japan Exchange Group
Principles for Responding to Corporate Scandals

“**Once a company becomes aware of indications of a scandal, it must promptly commence an investigation.** There are many cases where companies, despite having information about a scandal, delayed starting an investigation or focused on finding ways to justify the situation instead, failed to act, and **ultimately worsened the problem to the point of suffering fatal damage.**”

Mori Hamada & Matsumoto LPC
Legal Practice for Corporate Crises and Scandal Response(Translated)

“As a responsibility of top management, **if a scandal should occur, the CEO must personally take the lead in conducting fact-finding and root-cause investigation, implementing thorough recurrence prevention measures, and fulfilling the duty to explain**, and then, with clear authority and accountability, impose strict disciplinary measures, including on themselves.”

Japan Federation of Economic Organizations
Implementation Guidance on the Charter of Corporate Behavior (Translated)

However, at Toho HD, Even the Outside Directors Responsible for Oversight Have Made No Attempt to Take Such Actions, without Reasonable Grounds

- The outside directors categorically stated that “Personally, I feel that this has now brought all the problems to light.” and I do not believe there is anything else of this level or scale” even though no objective investigation, such as digital forensics¹, had yet been conducted to determine whether similar cases existed

(Mr. Kamoya) “Personally, I feel that **this has now brought all the problems to light**”
(Mr. Goto) “**I do not believe there is anything else of this level or scale.**”

Minutes of Outside Director Interviews (Translated)

- Even when asked to explain the basis for these views, they relied only on subjective and qualitative impressions, showing a disregard for objective fact-finding

(Mr. Kamoya) “Even just the bid-rigging issue alone, I have confirmed on site that the MS staff in the field **no longer have any such discussions at all with other wholesalers and that the situation has been cleaned up so that these conversations simply do not take place anymore.**”

(Mr. Kamoya) “**By frequently visiting the front line, I personally understand** that compliance with laws and regulations, which forms the basis for conduct, **is being thoroughly observed.** I have directly seen that all MS staff are acting with the awareness that the entire company must never again be involved in bid-rigging. I therefore recognize that ‘this is being firmly enforced.’”

Minutes of Outside Director Interviews (Translated)

2 Despite Exposed Organizational Scandals, Toho HD Refuses Third-Party Fact-Finding and Recurrence Prevention Measures

Companies That Have Experienced Organizational Scandals Must Conduct Third-Party Investigations and Establish Recurrence Prevention Measures

“In particular, for cases involving company-wide or organizational misconduct (including cases in which officers or other members of senior management are involved) (Omitted), from the standpoint of accountability to stakeholders and restoring trust from society, it is necessary to choose an investigative framework neutrality and independence. In such cases, it becomes necessary to consider establishing a third-party committee in accordance with the “Guidelines on Third-Party Committees in Corporate Misconduct Cases” formulated by the Japan Federation of Bar Associations.”

Mori Hamada & Matsumoto LPC
Legal Practice for Corporate Crises and Scandal Response (Translated)

“Therefore, when a risk is detected, external experts should be engaged without hesitation so that the case can be addressed efficiently and appropriately.”

Japan Audit & Supervisory Board Members Association
Recommendations on the Response of Audit & Supervisory Board Members When Serious Corporate Scandals Are Suspected (Translated)

Nevertheless, Toho HD Has Conducted No Third-Party Investigation into Past Bid-Rigging Cases, Repeatedly Rejecting Our Requests

- Toho HD has repeatedly been involved in bid-rigging cases in the past, but in none of these instances did it commission an investigation by a third-party committee

Case Name	Toho HD’s Response	Establishment of Third-Party Committee
Miyagi Prefecture Price Cartel Case	Only an internal investigation conducted for the purpose of drafting a code of ethics	✗
JCHO Bid-Rigging Case	Only an internal investigation conducted by a committee composed solely of internal personnel	✗
NHO Bid-Rigging Case	Only periodic internal investigations conducted by the same committee	✗
Nihon University Case	An investigation conducted by the Special Committee for Governance Enhancement, but the committee’s independence is in doubt	✗

- We have repeatedly requested that independent third parties determine the facts and develop recurrence prevention measures based on those findings, but Toho HD has rejected all of these requests

“With respect to the Antimonopoly Act violations and the matters related to Nihon University-affiliated hospitals that you have pointed out, our understanding is that Toho HD has appropriately completed its own investigations and has implemented recurrence prevention and improvement measures. (Omitted) Accordingly, we do not consider it necessary to establish a third-party investigation committee.”

Letter from Toho HD’s Board of Directors to our company (August 20, 2025)(Translated)

Pathology of Toho HD and the Cycle of Corporate Value Destruction

The Pathology Behind Toho HD’s Breach of the Duty of Due Care and Duty of Loyalty: Culture of Concealment and Escape into Formalistic Responses

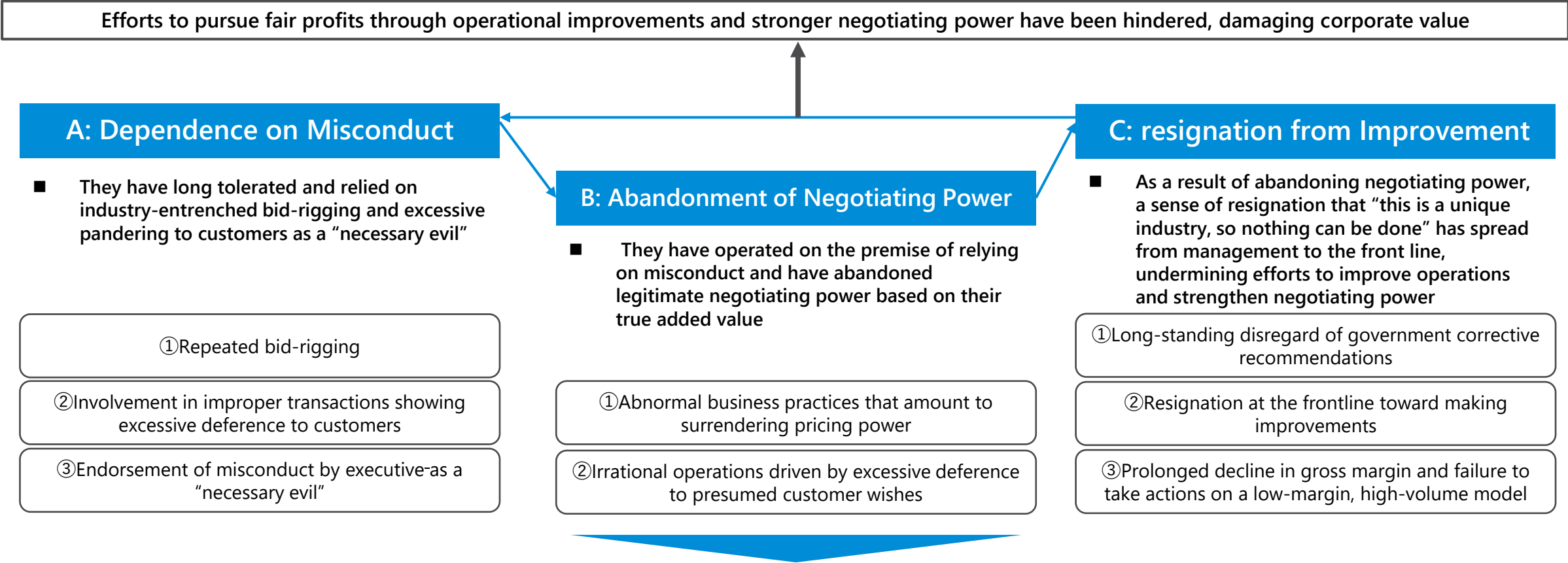
		Overview of the Pathology	Events Illustrating the Pathology	
Pathology of Toho HD	A: Culture of Concealment	<ul style="list-style-type: none">■ Management and overseers have condoned inconvenient facts such as misconduct as a “necessary evil,” not only refusing to face the problems but also seeking to avoid trouble by concealing the facts	1	Endorsement of Misconduct as a “Necessary Evil”
	B: Escape into Formalistic Responses	<ul style="list-style-type: none">■ When pressed by external parties to make improvements, they implement hollow, purely formal measures that bring about no real change, merely to create an alibi of having “responded,” and thereby avoid undertaking fundamental reforms	2	Rejection of “Objective Review” of Misconduct
			3	Disregard of Misconduct and False Explanations to Shareholders
			1	Recurrence Prevention Measures as a “For the Authorities” Ritual
			2	Alibi-Making Through “Findings Without Investigation”

Elaborated in Chapter 1

Toho HD's Pathology Has Created a Value-Destructive Negative Cycle

(Dependence on Misconduct → Abandonment of Negotiating Power → Resignation from Improvement)

The Negative Cycle of Dependence on Misconduct → Abandonment of Negotiating Power → Resignation from Improvement
Has Blocked Operational Reforms and Eroded Toho HD's Value-Creation Potential



Elaborated in Chapter 2

Chapter 1: Pathology of Toho HD

The Pathology Behind Toho HD’s Breach of the Duty of Due Care and Duty of Loyalty: Culture of Concealment and Escape into Formalistic Responses

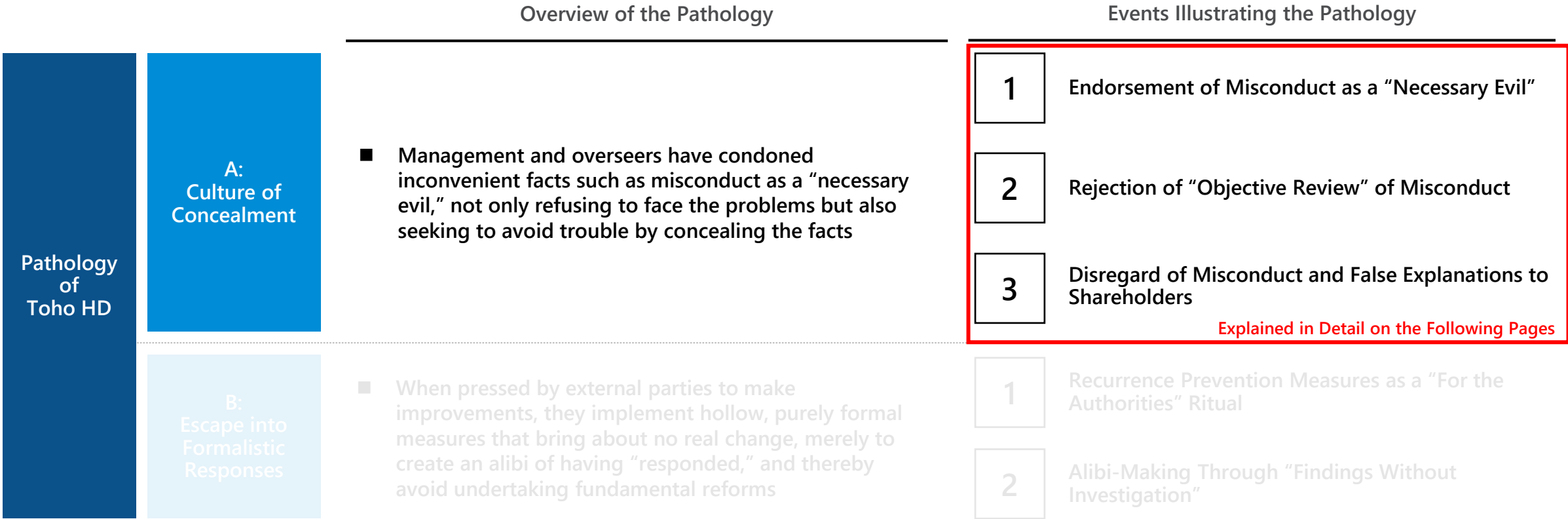
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Overview of the Pathology		Events Illustrating the Pathology	
Pathology of Toho HD	A: Culture of Concealment	<ul style="list-style-type: none">■ Management and overseers have condoned inconvenient facts such as misconduct as a “necessary evil,” not only refusing to face the problems but also seeking to avoid trouble by concealing the facts	<div>1</div> Endorsement of Misconduct as a “Necessary Evil”
	B: Escape into Formalistic Responses		<div>2</div> Rejection of “Objective Review” of Misconduct
			<div>3</div> Disregard of Misconduct and False Explanations to Shareholders
		<ul style="list-style-type: none">■ When pressed by external parties to make improvements, they implement hollow, purely formal measures that bring about no real change, merely to create an alibi of having “responded,” and thereby avoid undertaking fundamental reforms	<div>1</div> Recurrence Prevention Measures as a “For the Authorities” Ritual
			<div>2</div> Alibi-Making Through “Findings Without Investigation”

Elaborated in Chapter 1

The Pathology Behind Toho HD’s Breach of the Duty of Due Care and Duty of Loyalty: Culture of Concealment and Escape into Formalistic Responses

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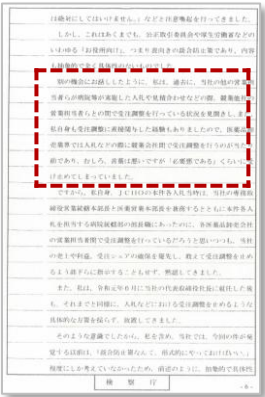
A Culture of Concealment (1/4): Toho HD Condoned Misconduct as a “Necessary Evil” for Business Continuity and the Company

A-①Endorsement of Misconduct as a “Necessary Evil”

The Written Statements Show that Executives Defined Misconduct as an “Indispensable Element of the Business”

COO Umada Tolerated and Participated in Order Coordination as a “Necessary Evil”

- In his Written Statements to the Public Prosecutors Office, current COO Akira Umada clearly stated that past bid-rigging was “I had essentially viewed it as a ‘necessary evil’”

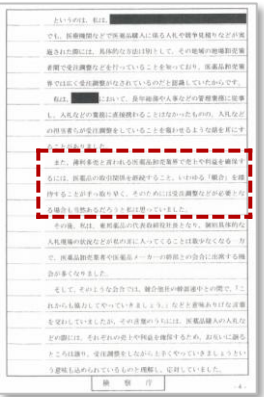


“I (*Omitted*), however, had come to regard it as perfectly normal in the pharmaceutical wholesale industry for competing companies to coordinate orders in connection with bids and the like, and, although the expression is inappropriate, I had essentially viewed it as a ‘necessary evil’.”

Written statement by Mr. Umada from the prosecutor’s questioning regarding JCHO (Translated)

CEO Edahiro Also Regarded Order Coordination as Strategically Necessary and Tacitly Approved It

- Current CEO Hiromi Edahiro similarly stated that “to secure profits, it is naturally sometimes necessary to engage in order coordination and similar practices”



“In the low-margin, high-volume pharmaceutical wholesale industry, I believed that maintaining the existing business relationship was the easiest way to secure sales and profits, and that, for that purpose, it was naturally sometimes necessary to engage in order coordination and similar practices.”

Written statement by Mr. Edahiro from the prosecutor’s questioning regarding JCHO (Translated)

A Culture of Concealment (2/4): Despite the Written Statements Showing Similar Bid-Rigging Cases, Toho HD Asserts that No Further Investigation Is Necessary without Reasonable Grounds

A-②Rejection of “Objective Review” of Misconduct (1/2)

When Scandals Are Suspected, Fact-Finding and Root-Cause Investigation Are Essential

“every listed company thus **needs to respond resolutely to any scandal or signs of a potential problem** concerning its operations (or those of its group companies) **by quickly conducting a thorough factual investigation into the matter, clearly identifying the root causes**, and using its findings to implement measures for preventing the problem from recurring. Listed companies **are under enormous pressure to exercise this ‘self-cleaning’ process.**”

Japan Exchange Group
Principles for Responding to Corporate Scandals

“**Once a company becomes aware of indications of a scandal, it must promptly commence an investigation.** There are many cases where companies, despite having information about a scandal, delayed starting an investigation or focused on finding ways to justify the situation instead, failed to act, and **ultimately worsened the problem to the point of suffering fatal damage.**”

Mori Hamada & Matsumoto LPC
Legal Practice for Corporate Crises and Scandal Response (Translated)

“As a responsibility of top management, **if a scandal should occur, the CEO must personally take the lead in conducting fact-finding and root-cause investigation, implementing thorough recurrence prevention measures, and fulfilling the duty to explain**, and then, with clear authority and accountability, impose strict disciplinary measures, including on themselves.”

Japan Federation of Economic Organizations
Implementation Guidance on the Charter of Corporate Behavior (Translated)

However, without Reasonable Grounds, Toho HD Asserts that No Similar Cases Exist

(Mr. Kamoya) “Personally, I feel that **this has now brought all the problems to light.**”
(Mr. Goto) “**I do not believe there is anything else of this level or scale.**”

Minutes of Outside Director Interviews (Translated)

(Mr. Kamoya) “Even just the bid-rigging issue alone, I have confirmed on site that the MS staff in the field **no longer have any such discussions at all with other wholesalers and that the situation has been cleaned up so that these conversations simply do not take place anymore.**”

(Mr. Kamoya) “**By frequently visiting the front line, I personally understand** that compliance with laws and regulations, which forms the basis for conduct, **is being thoroughly observed.** I have directly seen that all MS staff are acting with the awareness that the entire company must never again be involved in bid-rigging. I therefore recognize that ‘this is being firmly enforced.’”

Minutes of Outside Director Interviews (Translated)

A Culture of Concealment (3/4): While the Written Statements Clearly Show Organizational Scandals, Toho HD Firmly Refuses Any Third-Party Investigation

A-②Rejection of “Objective Review” of Misconduct (2/2)

Companies that Experience Organizational Scandals Must Conduct Third-Party Investigations and Establish Recurrence Prevention Measures

“In particular, for cases involving company-wide or organizational misconduct (including cases in which officers or other members of senior management are involved) (Omitted), from the standpoint of accountability to stakeholders and restoring trust from society, it is necessary to choose an investigative framework neutrality and independence. In such cases, it becomes necessary to consider establishing a third-party committee in accordance with the “Guidelines on Third-Party Committees in Corporate Misconduct Cases” formulated by the Japan Federation of Bar Associations.”

Mori Hamada & Matsumoto LPC
Legal Practice for Corporate Crises and Scandal Response (Translated)

“Therefore, when a risk is detected, external experts should be engaged without hesitation so that the case can be addressed efficiently and appropriately.”

Japan Audit & Supervisory Board Members Association
Recommendations on the Response of Audit & Supervisory Board Members When Serious Corporate Scandals Are Suspected (Translated)

Nevertheless, Toho HD Has Not Conducted Any Third-Party Investigation into Past Bid-Rigging Cases and Has Repeatedly Rejected Our Requests

“While we acknowledge your request that we establish a third-party committee to conduct an investigation, we do not believe that our current governance structure has the deficiencies you have pointed out. We also consider that we have responded appropriately to each of the matters you have raised. Accordingly, we do not consider it necessary to establish a third-party committee.”

Letter from Toho HD’s Board of Directors to our company (April 11, 2025) (Translated)

“We sincerely acknowledge the need to improve aspects of our response at that time and have already implemented various measures to enhance and strengthen our governance. Accordingly, we have concluded that, contrary to 3D’s assertion, there is no need to establish a third-party committee.”

Our Position on the Claims Made by 3D Company (June 4, 2025) (Translated)

“ With respect to the Antimonopoly Act violations and the matters related to Nihon University-affiliated hospitals that you have pointed out, our understanding is that we have appropriately completed our own investigations and have implemented recurrence prevention and improvement measures. In addition, as noted above, we have not confirmed any facts indicating that either advisor exerted improper influence on our management. However, the Final Report of the Special Committee for Governance Enhancement includes recommendations on revising or abolishing the advisor system, and we plan to implement improvements in line with those recommendations. Accordingly, we do not consider it necessary to establish a third-party investigation committee.”

Letter from Toho HD’s Board of Directors to our company (August 20, 2025) (Translated)

A Culture of Concealment (4/4): At the Previous Annual General Meeting, Toho HD Concealed the Written Statements from Shareholders and Hid the Existence of Similar Bid-Rigging Cases and Management’s Involvement in Scandals

A-③Disregard of Misconduct and False Explanations to Shareholders

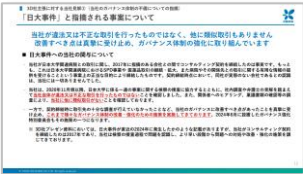
Despite Clear Evidence of Misconduct Similar to Past Scandals, Toho HD Told Shareholders that No Similar Misconduct Exists

■ The Written Statements make it clear that similar order coordination had been conducted

“As someone working in the pharmaceutical wholesale industry, from the time of the 2016 JCHO tender and the 2018 JCHO tender onward, I believed that **not only for those JCHO tenders** but also for [redacted], **orders were likely being coordinated among competitors, including Toho pharmaceutical, Alfresa, Mediceo, and Suzuken, the so-called ‘Big Four’ pharmaceutical wholesalers.**”

Written statement by Mr. Edahiro from the prosecutor’s questioning regarding JCHO (Translated)

■ However, at the previous Annual General Meeting, Toho HD told shareholders that there were no cases similar to the past scandals



“We (Omitted) have confirmed that we did not engage in any illegal or improper transactions ourselves. In addition, through interviews with relevant parties and reviews of approval documents, **we have confirmed that there are no other similar transactions at our company.**”

Toho HD
Our Position on the Claims Made by 3D Company (Translated)

Despite Current Management’s Tolerance and Involvement in Misconduct, Toho HD Hid These Facts from Shareholders and Manipulated Perceptions of Directors’ Fitness

■ The Written Statements also clearly shows that the current management tolerated and was involved in bid-rigging and other misconduct

(CEO Edahiro) “I understood such words to include the meaning (Omitted) **that we would coordinate orders among ourselves to manage things smoothly, and I responded accordingly.**”
(COO Umada) “**I saw and heard situations in which other sales personnel at our company engaged in order coordination (Omitted), I myself also had experiences of directly participating in such order coordination.**”

Written statement by Mr. Edahiro and Mr. Umada from the prosecutor’s questioning regarding JCHO (Translated)

■ Nevertheless, at the previous Annual General Meeting, Toho HD presented Mr. Edahiro as if he were a good-faith third party, and provided no explanation at all regarding Mr. Umada

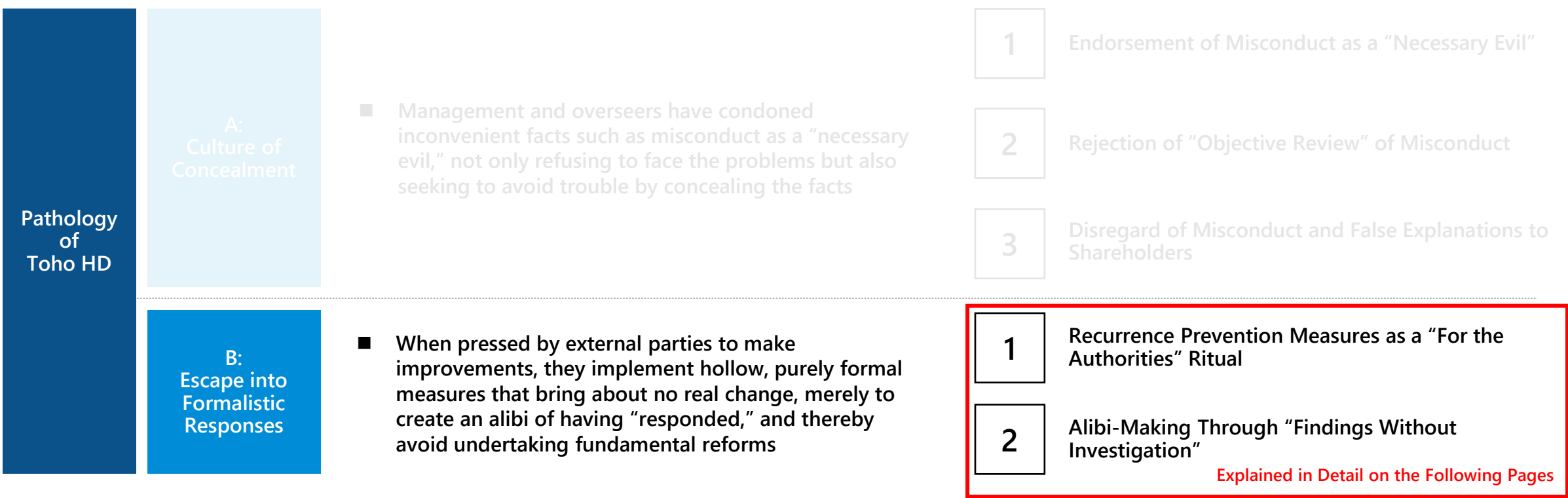


“**Precisely because he is familiar with how past misconduct occurred,** he has a deeper understanding than anyone else of our company’s challenges and problems, and we believe **he is well suited to take the lead in formulating and implementing recurrence prevention measures** that make use of that experience.”

Toho HD
Our Position on the Claims Made by 3D Company (Translated)

The Pathology Behind Toho HD’s Breach of the Duty of Due Care and Duty of Loyalty: Culture of Concealment and Escape into Formalistic Responses

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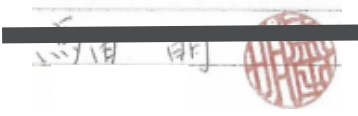
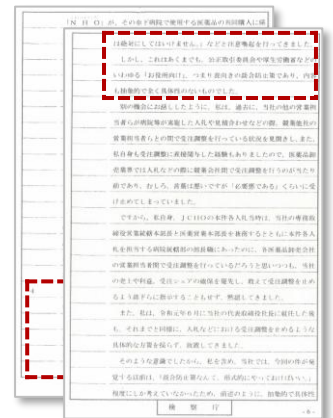


B Escape into Formalistic Responses (1/2): Recurrence Prevention Measures for Past Scandals Have Been Bureaucratic Rituals to Show “We Responded,” Not to Change the Status Quo

B-① Recurrence Prevention Measures as a “For the Authorities” Ritual

COO Umada Has Admitted that Past Recurrence Prevention Measures Were Merely “For the Authorities”

- COO Umada has admitted that the past recurrence prevention measures were “essentially measures ‘for the authorities’” “ they were outward-facing anti-bid-rigging measures, and their contents were abstract and entirely lacking in specificity”

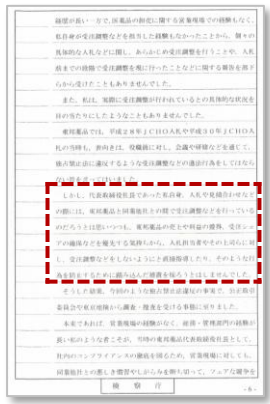


“With respect to the recurrence prevention measures that the Toho Group has been implementing, *(Omitted)* they were essentially measures ‘for the authorities,’ such as the Japan Fair Trade Commission and the Ministry of Health, Labour and Welfare. In other words, they were outward-facing anti-bid-rigging measures, and their contents were abstract and entirely lacking in specificity.”

Written statement by Mr. Umada from the prosecutor’s questioning regarding JCHO (Translated)

CEO Edahiro Has Also Admitted that No Substantive Recurrence Prevention Measures Were Taken

- CEO Edahiro has acknowledged that, although he outwardly declared such practices prohibited, in reality he “prioritized securing sales, profits, and order share,” and therefore did not take decisive measures



“As president and representative director at the time, although I *(Omitted)*, suspected that order coordination and similar practices were taking place, my desire to prioritize securing Toho pharmaceutical’s sales, profits, and order share meant that I neither gave direct instructions to the bidding staff or their supervisors not to engage in such conduct, nor did I take decisive measures to prevent these practices.”

Written statement by Mr. Edahiro from the prosecutor’s questioning regarding JCHO (Translated)

B Escape into Formalistic Responses (2/2): Even the Special Committee for Governance Enhancement Rejects Consideration of Fundamental Reforms and Escapes into Drafting Formalistic Recurrence Prevention Measures Merely to Create an Alibi

B-②Alibi-Making Through “Findings Without Investigation”

The Special Committee for Governance Enhancement Completely Abandoned Fact-Finding and Root-Cause Analysis of Past Events and Proceeded Directly to Draft Recurrence Prevention Measures

- The recently established Special Committee for Governance Enhancement declared at the outset that it is “not an investigative committee,” thereby abandoning any fact-finding regarding past events

“The Special Committee for Governance Enhancement (*Omitted*) is a committee whose purpose is to strengthen governance, and is **not a so-called investigative committee whose purpose is to investigate past misconduct and pursue the responsibility of those involved.**”
The Special Committee for Governance Enhancement Final Report (Translated)

- Chairperson Mr. Takai has publicly stated that “the premise that causes cannot be understood without conducting an investigation is mistaken,” and prepared the report based on his own formula that is not grounded in facts

“First of all, this is not an investigative body. **The premise that causes cannot be understood without conducting an investigation is itself mistaken.**”
“**The formula is in my head.** The formula itself is not a subject of discussion. If we were to start debating the formula, I would obviously win.”
Minutes of the Interview with the Chairperson of the Special Committee for Governance Enhancement (Translated)

As a Result, the Special Committee for Governance Enhancement’s Report Remained Extremely General and Abstract

- The resulting recurrence prevention measures, lacking any foundation in objective facts, consisted only of moral exhortations and generic organizational theory, and were broad, abstract, and self-serving



Recommendations in the Final Report	
1	Strengthening and enhancement of the Board of Directors and related bodies
2	Strengthening and clarification of the authority of CGO
3	Clarification of the appointment criteria and roles of Senior Advisors, Advisors, and Consultants
4	Rationalization of each committee and clarification of its authority and role
5	Strengthening governance over subsidiaries
6	Enhancing the effectiveness of audits
7	Objectivity and Fairness in Personnel Matters
8	Tightening of contract procedures
9	Rationalization and objectification of decision-making by the Investment Committee
10	Continuous review of various rules and thorough, enhanced training
11	Speeding up, proper handling, and documentation of responses to misconduct
12	Establishment of an effective internal whistleblowing system

All of the recommendations remain self-serving in nature (for details, see p.31-32)

By Rejecting Objective Fact-Finding and Relying on Abstract “Ideal State” Discussions, This Process Becomes Mere “Alibi-Making” to Appear Responsive to External Criticism and Symbolizes Escape into Formalistic Responses

(Reference) Overview of the Special Committee for Governance Enhancement

Fact-finding and cause analysis of misconduct are outside the scope.

“(This Committee) is not a so-called investigative committee whose purpose is to investigate past misconduct and pursue the responsibility of those involved.”

The Special Committee for Governance Enhancement
Final Report

Content

Purpose

- Formulation of recurrence prevention measures for legal violations and improper transactions
 - Verification of internal control organizations and provision of advice and recommendations on governance from an objective and expert standpoint¹

Period

- Toho HD announced the establishment of the Special Committee for Governance Enhancement in August 2024
- The interim report was issued on February 7, 2025
- The final report was issued in October 2025

Structure

- It is **composed of the following three external members**, who have expertise in law, finance, and corporate management
 - Chairperson: Mr. Yasuyuki Takai
 - Member: Outside Director Mr. Hidehito Kotani
 - Member: Outside Director Ms. Chie Goto
- Secretariat: Toho HD Legal Department, Corporate Strategy Division, and Corporate Planning Department



2024 年 8 月 6 日

各 位

Toho HD

Notice Regarding the Establishment of the Special Committee for Governance Enhancement

当社は、本日開催の取締役会において、取締役会の諮問機関として「ガバナンス強化特別委員会」を設置することを決定いたしましたので、下記の通りお知らせいたします。

【本委員会の目的】

当社は「全ては健康を願う人々のために」のコーポレートスローガンのもと「医薬品等の安定供給」を通じて社会・医療へ貢献することを社会的使命とし、健康を願う人々、顧客、地域社会、株主、社員など全てのステークホルダーから必要とされ、継続して支持される企業集団を目指しております。当社グループは東邦薬品株式会社ならびに九州東邦株式会社が独占禁止法第8条（不当な取引制限の禁止）に違反したとして排除措置命令等を受けた事案を受け、関連法規の遵守（コンプライアンス）及びリスクマネジメントを最優先事項として取り組んでまいりました。この度、当社グループのコンプライアンス、リスクマネジメントを含めたガバナンスのより一層の強化を図るべく、「ガバナンス強化特別委員会」（以下「本委員会」といいます。）を取締役会の諮問機関として設置することといたしました。本委員会は客観的かつ専門的立場から、内部統制組織に係る検証及びガバナンスに係る助言・提言を行うべく、当社から独立したメンバーで構成いたします。当社グループは本委員会からの助言・提言を踏まえ、更なるガバナンス体制の強化を図っていく所存です。

【構成メンバー】

本委員会は、その設置目的に鑑み、法律・財務・企業経営等の専門性を持つ下記の社外メンバーで構成するものいたします。

委員長	高井 康行 (弁護士)	1972 年 4 月 検事任官。東京地検特捜部等に勤務 1990 年 4 月以降、福岡地検刑事部長、東京地検刑事部副部長、横浜地検特別刑事部長などを歴任 1997 年 6 月 東京高検刑事部検事を最後に退官 1997 年 9 月 弁護士登録 岐阜地検時代に岐阜県庁汚職事件、特捜部時代にリクルート事件等を担当。 福岡地検刑事部長時代に被害者通知制度を創設。 弁護士登録後は主に企業のコンプライアンス、危機管理に関する業務、企業の事業活動に伴う刑事事件等を取り扱う。その傍ら、公益活動として、政府の捜査手法・取調べの高度化を図るための研究会委員などを務める。
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Source: Toho HD, “Notice Regarding the Establishment of the ‘Special Committee for Governance Enhancement’”; Toho HD, “Our Policy on Responses Based on the Final Report of the Special Committee for Governance Enhancement and Its Recommendations.”
Note: [1] Excerpted from Toho HD’s disclosure materials.

(Reference) We Were Concerned from the Outset that the Special Committee for Governance Enhancement's Reports Would Be Overly Broad, Abstract, and Self-Serving

In Formulating Recurrence Prevention Measures, It Is Essential to Tailor Them Based on the Findings of Investigations into Past Scandals



"In working to identify the root causes of a scandal, a company should first establish the necessary and sufficient investigative scope and then go beyond simply examining phenomena and listing causal relationships on a superficial level. **A proper investigation entails looking closely at the deeper contextual background of the problem, finding hard facts, and delineating the fundamental causes at the heart of the scandal.** (Omitted) To prevent a scandal from recurring, a company should formulate highly effective policies that directly address the root causes of the issue and implement them swiftly and steadily."

Japan Exchange Group
Principles for Responding to Corporate Scandals



"It goes without saying that any "recommendations" (such as recurrence prevention measures) must be specific and concrete, based on a thorough fact-finding investigation, and most appropriate for the company that caused the misconduct, in light of the actual situation, causes, and organizational problems that have been identified."

Japan Federation of Bar Associations, Committee on Reform of Attorney Work
Commentary on "the Guidelines for Third-Party Committees in Corporate Misconduct Cases" (Translated)



"For the management of the Group headquarters and each Group company, (Omitted) as ex-post measures, **it is also important to take swift action for the early detection of misconduct and the minimization of damage, as well as to identify the root causes and implement recurrence prevention measures based on them.**"

Ministry of Economy, Trade and Industry
Practical Guidelines for Group Governance Systems (Group Guidelines) (Translated)

We Were Concerned that, without Investigating Past Scandals, Recurrence Prevention Measures Would Not Be Tailored to Toho HD and Would Lack Effectiveness

- From the moment past scandals were excluded from the scope of the investigation, we were concerned that the recurrence prevention measures would become broad and lose effectiveness, and we in fact advised Toho HD of this risk



"The scope of the Special Committee for Governance Enhancement is limited to "formulating recurrence prevention measures." In addition, **without first establishing a foundation through investigations and cause analyses of specific past misconduct and compliance issues at your company, as well as a comprehensive review of whether similar problems exist and the identification of the fundamental causes based on such review,** the committee's work is confined to examinations based on the categorization of compliance issues using the expertise of its members. As a result, **there is a risk that specific, concrete compliance issues unique to your company may be overlooked,** and therefore the appropriateness of its scope is in doubt."

Letter from our company to the Board of Directors of Toho HD
(Translated)

(Reference) In Practice, the Final Report of the Special Committee for Governance Enhancement Was a Broad-Brush, Highly Abstract and Self-Serving Document

The recommendation items are all generic and cover a wide range of areas.

The substance of the recommendations is also extremely abstract.

	Recommendation Item	Recommendation Details (Excerpt)	Basis for “Self-Serving” Nature
1	Strengthening and enhancement of the Board of Directors and related bodies	1 The Representative Director should place the highest priority on governance and compliance, remain constantly self-aware and self-reflective so as not to become arbitrary in decision-making, and should always encourage the expression of dissenting and minority opinions and endeavor to assess them appropriately.	With respect to a Representative who is alleged to failure to exercise the Duty of Due Care, this amounts to nothing more than a subjective and abstract recommendation to “be mindful,” and serves to divert the discussion from the specific sanctions that should in fact be considered.
2	Strengthening and clarification of the authority of CGO ¹	(1) ① To take the lead in the overall design, establishment, maintenance, and improvement of the group-wide governance framework. (4) To contribute to the creation of a free and open corporate culture by drawing out and reflecting minority opinions within the group.	Mr. Matsuya, who is alleged to have been involved in the bid-ridding as Vice President during the JCHO bid-ridding case, and as President during the NHO bid-ridding case, as CGO1, is plainly unfit to occupy a position that should be leading governance reform and the creation of a free and open corporate culture.
3	Clarification of the appointment criteria and roles of Senior Advisors, Advisors, and Consultants	(4) As an exception, a person may be appointed as a Senior Advisor or Advisor only when the Nomination and Compensation Committee determines that, for the development of the Toho Group, that person’s insights, expertise, information, etc. are irreplaceable and cannot be substituted by anyone else.	In May 2025, following an internal whistleblower report through which we became aware of and pointed out the appointments of Mr. Kato and Mr. Morikubo ² as Advisors, this recommendation was presented. However, the stated “exceptional grounds” are, in substance, identical to the explanation Toho HD had previously given to our company regarding their appointments, and ultimately do nothing more than preserve a loophole that allows unsuitable individuals to continue to be appointed as Senior Advisors, Advisors, or Consultants and to provide a pretext for justifying such appointments.
4	Rationalization of each committee and clarification of its authority and role	2 The chair of the Compliance Committee shall be CGO ¹ , and his principal authorities and responsibilities shall be:① formulation of the basic policy and internal rules on compliance;② monitoring the status of compliance promotion; ③ deliberation and formulation of response measures and recurrence-prevention measures regarding compliance violations;④ supervision of the Compliance Promotion Department; and⑤ periodic reporting to the Board of Directors on the operation of the whistleblowing system and related matters.	Mr. Matsuya, who is alleged to have been involved in the bid-ridding as Vice President during the JCHO bid-ridding case, and as President of Kyushu Toho during the NHO bid-ridding case, as CGO ² , serves as chair of both the Compliance Committee and the Risk Committee.
5	Strengthening governance over subsidiaries	1 There is an urgent need to formulate unified governance rules and standards for the entire Toho Group, to standardize governance criteria and clarify the authority and responsibilities of each subsidiary and department.	The proposal merely recommends the formulation of such governance rules and standards, without referring to any specific provisions or criteria.
6	Enhancing the effectiveness of audits	The primary purpose of audits is not to discover illegal, improper, or inappropriate acts after the fact, but to prevent such acts in advance. To achieve this, audits must be conducted in a manner that is truly effective, rather than as mere box-ticking exercises that simply confirm a predetermined harmony.	No concrete, case-specific review tailored to the circumstances of Toho HD has been conducted at all. The report does nothing more than enumerate abstract recommendations in general terms, and its content contributes nothing to any substantive governance reform at our company.

Source: Toho HD, “Regarding Receipt of the Final Report of the Special Committee for Governance Enhancement and Our Policy for Responding to the Recommendations”

Notes: [1] Mr. Kato served as Representative Director and President of Toho HD at the time of both the Nihon University Hospital incident and the JCHO bid-ridding case. Mr. Morikubo was, at the time of the Nihon University Hospital incident, a Senior Managing Director of Toho HD responsible for overseeing the pharmaceutical business, and at the time of the JCHO bid-ridding case, Chairman and Representative Director of Toho pharmaceutical. ; [2] Abbreviation of Chief Governance Officer

(Reference) In Practice, the Final Report of the Special Committee for Governance Enhancement Was a Broad-Brush, Highly Abstract and Self-Serving Document

The recommendation items are all generic and cover a wide range of areas.

The substance of the recommendations is also extremely abstract.

	Recommendation Item	Recommendation Details (Excerpt)	Basis for “Self-Serving” Nature
7	Objectivity and Fairness in Personnel Matters	Preamble: Personnel decisions all too often involve favoritism or reflect the personal likes and dislikes of certain individuals. Whether employees’ abilities are evaluated objectively and fairly, without such favoritism, whether they are given positions appropriate to them, and whether employees trust the company’s personnel system are all factors that directly determine the growth or decline of the organization.	No concrete, case-specific review tailored to the circumstances of Toho HD has been conducted at all. The report does nothing more than enumerate abstract recommendations in general terms , and its content contributes nothing to any substantive governance reform at our company.
8	Tightening of contract procedures	It goes without saying that contract procedures should be made more stringent, and at a minimum, with respect to contracts with new counterparties, the Company should institutionalize confirmation of the following matters: ① that the counterparty has real substance; ③ that the terms of the contract are reasonable and appropriate; (Omitted) ⑤ the status of performance of the contract.	This is merely an abstract list of obvious, generic cautions regarding contract procedures, and as a recommendation to a company that lacks ethics in its contractual dealings, it has no practical effectiveness whatsoever.
9	Rationalization and objectification of decision-making by the Investment Committee	As a general matter, there are numerous past examples in which, under autocratic management, corporate assets have been used in unreasonable or arbitrary ways. To avoid repeating such mistakes, it is necessary at this juncture to reassess how decisions are made by the Investment Committee and to establish institutional safeguards to ensure that its decisions are based solely on economic rationality.	No concrete, case-specific review tailored to the circumstances of Toho HD has been conducted at all. The report does nothing more than enumerate abstract recommendations in general terms , and its content contributes nothing to any substantive governance reform at our company.
10	Continuous review of various rules and thorough, enhanced training	To prevent illegal acts and other misconduct in advance, it is necessary for officers and employees to be thoroughly familiar with what kinds of conduct constitute violations of law. To that end, it is essential to establish appropriate rules and to implement thorough and effective training based on those rules.	This is no different from the recurrence-prevention training (cautionary notice) conducted at the time of the JCHO bid-rigging case, which COO Umada characterized as “geared toward government authorities, abstract in content, and completely lacking in specificity.”
11	Speeding up, proper handling, and documentation of responses to misconduct	3 By establishing in advance disclosure standards based on the nature and seriousness of each case, the Company should prevent decisions on whether or not to disclose from becoming arbitrary.	In light of the fact that Toho HD has historically engaged in repeated cover-ups under arbitrary disclosure standards, this recommendation ought to set out specific disclosure standards. Instead, it simply leaves their formulation entirely to the Company and thus lacks any of the practical effectiveness that one would normally expect from such a recommendation.
12	Establishment of an effective internal whistleblowing system	① Whistleblowing should, in principle, be anonymous.② A reporting channel should also be established outside the Company.③ A leniency program and reward scheme for whistleblowers should be introduced.④ A dedicated compliance unit (Compliance Promotion Department) should be newly established to manage and operate the internal whistleblowing system.	This results in a logically inconsistent recommendation under which the dedicated compliance unit would be supervised by Mr. Matsuya, CGO1, who is alleged to have been involved in bid-rigging.

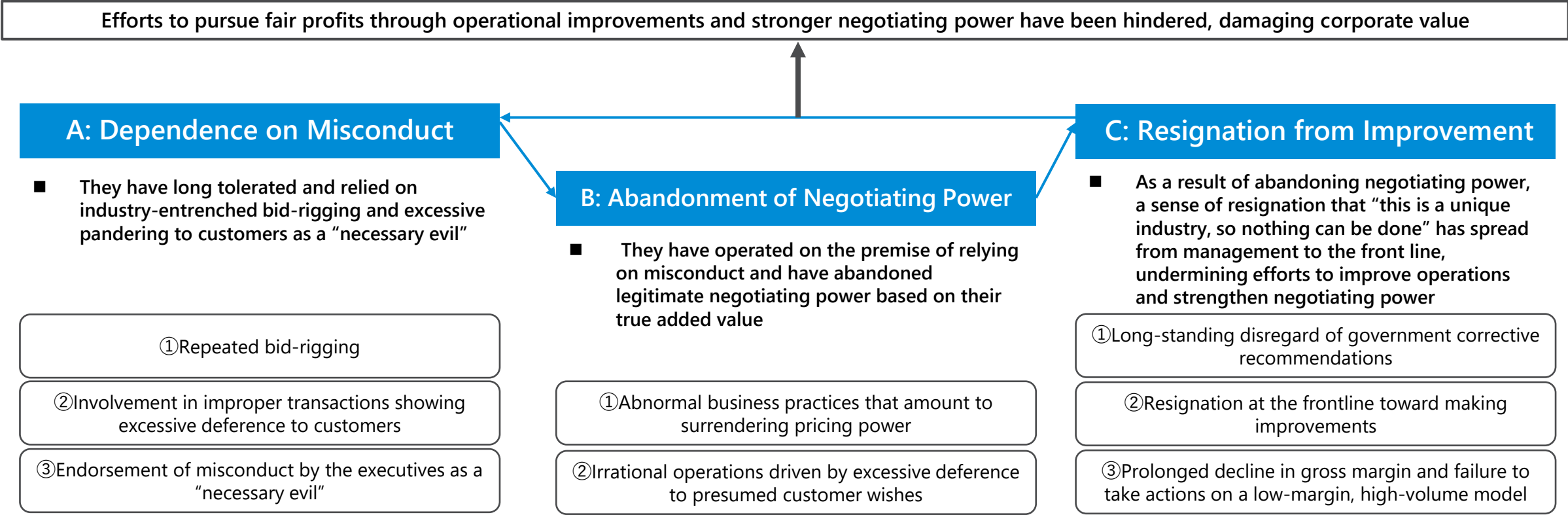
Source: Toho HD, “Regarding Receipt of the Final Report of the Special Committee for Governance Enhancement and Our Policy for Responding to the Recommendations”

Chapter 2: Cycle of Corporate Value Destruction

Toho HD's Pathology Has Created a Value-Destructive Negative Cycle
(Dependence on Misconduct → Abandonment of Negotiating Power → Resignation from Improvement)

The Negative Cycle of Dependence on Misconduct → Abandonment of Negotiating Power → Resignation from Improvement
Has Blocked Operational Reforms and Eroded Toho HD's Value-Creation Potential

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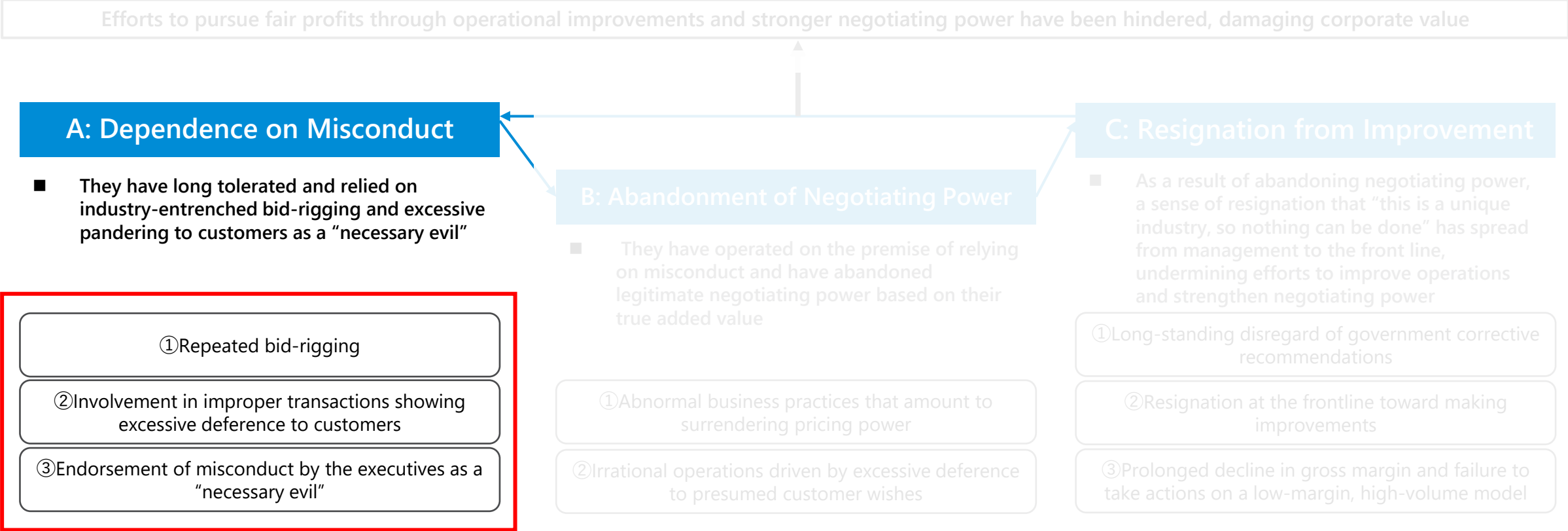


Toho HD's Pathology Has Created a Value-Destructive Negative Cycle

(Dependence on Misconduct → Abandonment of Negotiating Power → Resignation from Improvement)

Repeat

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Explained in Detail on the Following Pages

A Dependence on Misconduct (1/3): Bid-Rigging Was Uncovered in 2003, 2019, and 2021, and Recurrence Prevention Measures Were Formulated Each Time; However, Such Incidents Continue to Recur

A-① Repeated Bid-Rigging

Year of detection for each case¹ :

2003

2019

2021

Miyagi Prefecture Price Cartel Case

Japan Fair Trade Commission Orders 500 Million Yen Surcharge on Ten Wholesalers for the Miyagi 'Ceasefire' Cartel

公開日時 2003/02/13 23:00

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JCHO Bid-Rigging Case

Four pharmaceutical Wholesalers Suspected of Bid-Rigging in Japan Community Health Care Organization Tender, JFTC Investigating

2019年11月27日 14:00 (2019年11月27日 14:13更新)

NHO Bid-Rigging Case

Six Companies Suspected of Bid-Rigging on pharmaceuticals Ordered by the National Hospital Organization and Others, JFTC Conducts On-Site Inspection

2021/11/09 16:55

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Outline of each case

■ Ten pharmaceutical wholesalers formed a price cartel at a hotel in Sendai City

■ A surcharge payment order totaling 536.79 million yen was imposed, of which Toho pharmaceutical was ordered to pay 46.58 million yen

■ Four pharmaceutical wholesalers repeatedly engaged in bid-rigging in connection with bids for pharmaceuticals ordered by JCHO

■ A surcharge payment order totaling 423.85 million yen was imposed, of which Toho pharmaceutical was ordered to pay 161.89 million yen

■ Six pharmaceutical wholesalers engaged in bid-rigging in connection with bids for pharmaceuticals ordered by the National Hospital Organization (NHO) in the Kyushu area

■ A surcharge payment order totaling 627 million yen was imposed, of which Kyushu Toho was ordered to pay 127.59 million yen

Recurrence prevention measures

■ An ethics code was created and distributed to all employees in order to enhance awareness of legal compliance

■ A compliance program (in-house training sessions) based on the ethics code was implemented

■ The Group Compliance and Risk Management Committee is held on a regular basis

- The President and Representative Director of Toho HD serves as the committee chair

■ Through training, awareness of and thorough adherence to the establishment of legal compliance systems at group subsidiaries is promoted

■ Compliance training is conducted every month

■ The recurrence prevention measures and thorough compliance initiatives announced after the discovery of the JCHO bid-rigging case have been continued

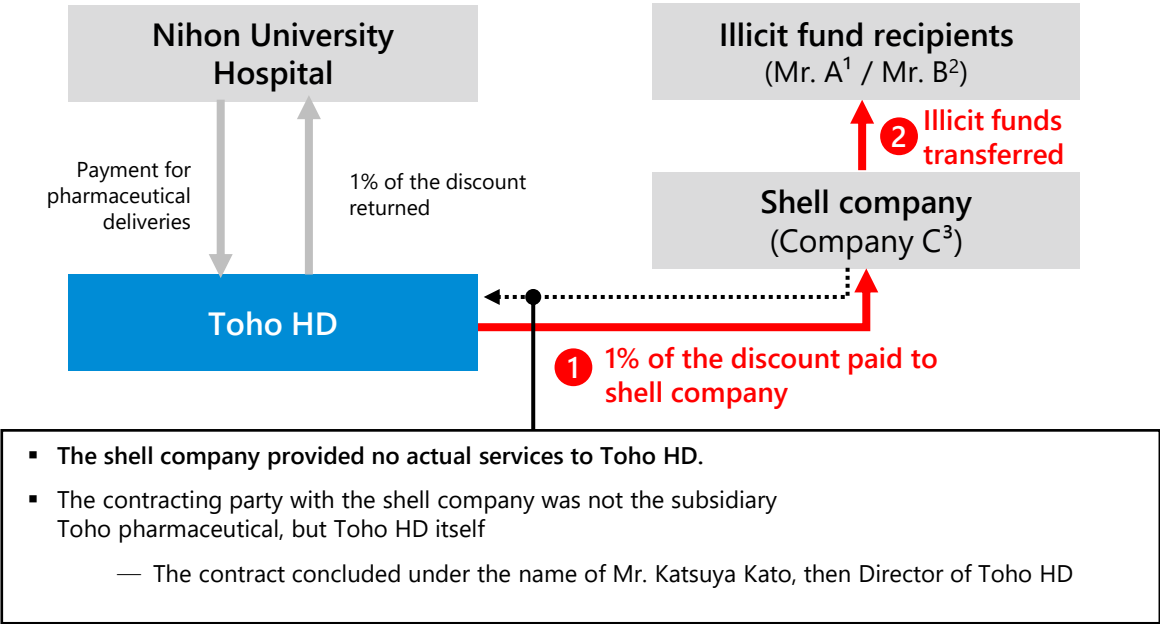
Source: Mix Online, "Japan Fair Trade Commission Orders 500 Million Yen Surcharge on Ten Wholesalers for the Miyagi 'Ceasefire' Cartel"; The Nikkei, "Four pharmaceutical Wholesalers Suspected of Bid-Rigging in Japan Community Health Care Organization Tender, JFTC Investigating"; The Yomiuri Shimbun, "Six Companies Suspected of Bid-Rigging on pharmaceuticals Ordered by the National Hospital Organization and Others, JFTC Conducts On-Site Inspection"; Company disclosure materials.
Note: [1] The year in which involvement of Toho HD or Toho pharmaceutical, and Kyushu Toho in the case was first reported externally (according to our research).

A Dependence on Misconduct (2/3): Toho HD Blindly Subordinated Itself to Customer Demands and Became Involved in Improper Transactions in the Nihon University Case, which Other Companies Had Refused

A-② Involvement in Improper Transactions Showing Excessive Deference to Customers

Toho HD Was Involved in the Scheme to Generate Illicit Funds at Hospitals Affiliated with Nihon University

- 1 Toho HD returned part of the discount on pharmaceuticals sold to Nihon University-affiliated hospitals to a shell company
- 2 The returned funds were then transferred to specific individuals, resulting in at least 101.65 million yen in illicit funds being created



Involvement in the Illicit Scheme that Competitors Rejected Symbolizes Toho HD’s Excessive Accommodation of Customer Demands

- It was obvious that this scheme was illicit
 - A competitor, Alfresa, was approached with a similar improper transaction but refused to participate
 - The representative director of Company C was found to have no direct relationship with Nihon University in his background
 - It was obvious that Company C’s address was merely a unit in a residential condominium

“Although Alfresa agreed to match the discount conditions after Toho pharmaceutical’s price reduction, it refused to transfer funds to a bank account designated by Mr. A and his associates, which belonged to a different company.”

Nikkan Yakugyo

“Funds Were Also Paid in Transactions Between Toho and Alfresa – Former Executives Confess in Nihon University Hospital Procurement Fraud” (Translated)

“Mr. G (President and Representative Director of Company C) was employed at a travel agency called Travel Agency Company H before 2010. (Omitted) In 2010, I (Mr. B) hired Mr. G at Association D, and after the establishment Company F, had him work there as well. Since hiring Mr. G at Association D, he has also been serving as my personal secretary up to the present.”

Written statement of Mr.B,
Civil Case Record Related to the Nihon University Case (Translated)



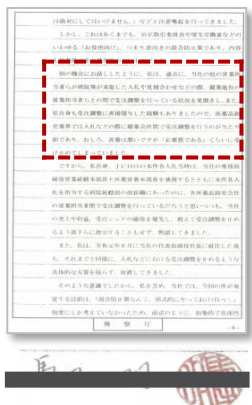
A Dependence on Misconduct (3/3): They Have Continued to Tolerate Improper Transactions Rooted in the Industry, such as Bid-Rigging and Excessive Accommodation of Customers (Compliance Violations), as a “Necessary Evil”

A-③ Endorsement of Misconduct by the executives as a “Necessary Evil”

The Written Statements Show that the Executives Themselves Defined Misconduct as an “Indispensable Element of the Business”

COO Umada Tolerated and Participated in Order Coordination as a “Necessary Evil”

- In his Written Statements to the Public Prosecutors Office, current COO Akira Umada clearly stated that past bid-rigging was “I had essentially viewed it as a ‘necessary evil’”

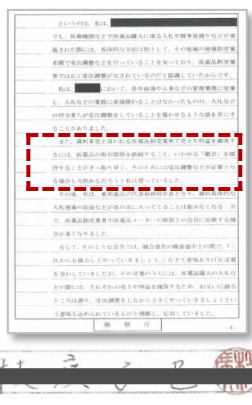


“I (Omitted), however, had come to regard it as perfectly normal in the pharmaceutical wholesale industry for competing companies to coordinate orders in connection with bids and the like, and, although the expression is inappropriate, I had essentially viewed it as a ‘necessary evil’.”

Written statement by Mr. Umada from the prosecutor’s questioning regarding JCHO case (Translated)

CEO Edahiro Also Regarded Order Coordination as Strategically Necessary and Tacitly Approved It

- Current CEO Hiromi Edahiro similarly stated that “to secure profits, it is naturally sometimes necessary to engage in order coordination and similar practices”



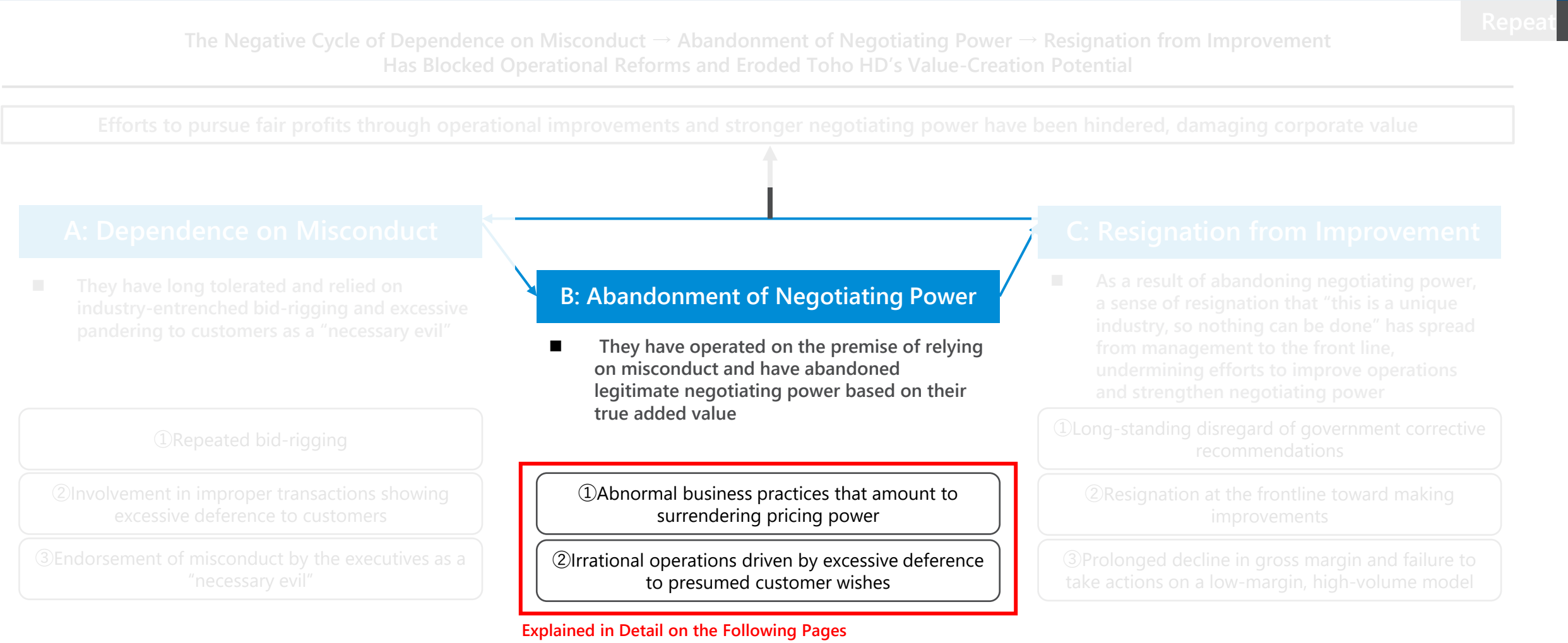
“In the low-margin, high-volume pharmaceutical wholesale industry, I believed that maintaining the existing business relationship was the easiest way to secure sales and profits, and that, for that purpose, it was naturally sometimes necessary to engage in order coordination and similar practices.”

Written statement by Mr. Edahiro from the prosecutor’s questioning regarding JCHO case (Translated)

This Shows that the Company Has Relied on Misconduct and Has Systematically Condoned It as a “Necessary Evil” for Business Continuity and, Ultimately, for the Company

Toho HD's Pathology Has Created a Value-Destructive Negative Cycle

(Dependence on Misconduct → Abandonment of Negotiating Power → Resignation from Improvement)



B Abandonment of Negotiating Power (1/2): Toho HD Has Accepted an Abnormal Business Practice that Signifies the Abandonment of Its Price-Setting Authority and Continues to Engage in Transactions under Such Conditions

B-① Abnormal Business Practices That Amount to Surrendering Pricing Power

	Lump-Sum Price Contract	Unsettled Contracts and Provisional Deliveries	Negative Margins and Dependence on Rebates
Business practices	<ul style="list-style-type: none">Prices are determined based on the total amount for all items, ignoring the value and distribution cost of individual pharmaceuticals	<ul style="list-style-type: none">Products continue to be delivered without prices being fixed, and prices are then determined retroactively six months or one year later	<ul style="list-style-type: none">A revenue structure in which pharmaceuticals are sold to medical institutions at prices lower than the purchase cost (resulting in an initial loss), and profitability is then sought through retrospective rebates from manufacturers
Issues	<ul style="list-style-type: none">They structurally forgo the opportunity to pass on the added value of logistics to the prices of individual products, thereby nullifying the price negotiation power at the operational level <p>“It has long been pointed out that lump-sum price transactions have many problems. The drawbacks have been recognized, including the lack of autonomy in pricing individual pharmaceuticals and the difficulty in discerning the cost-based grounds for prices.”</p> <p>Japan Generic Medicines Association (Translated)</p>	<ul style="list-style-type: none">Since the products have already been delivered, wholesalers no longer have their strongest bargaining chip, namely the ability to suspend deliveries”Medical institutions, as customers, are in an overwhelmingly advantageous position that allows them to demand lower prices retroactively, and wholesalers have no choice but to comply <p>“In the pharmaceutical wholesale industry, buyers held the advantage, and the discount rate—namely the drug price margin—was at a level well exceeding 20%. Buyers requested provisional deliveries over a long period without finalizing prices, postponed the conclusion of price negotiations until the end of the fiscal year, and obtained market price information from management consultants and others, making it their basic strategy to secure the maximum possible drug price margin. This margin on drug prices had been incorporated as a source of operating funds for medical institutions.”</p> <p>Japan Pharmaceutical Information Center (Translated)</p>	<ul style="list-style-type: none">They are unable to generate profit from their own services (logistics) and have their very survival effectively controlled by manufacturers’ discretion over allowances <p>“For wholesalers, the delivery price to medical institutions is 1–3% lower than the transfer price from manufacturers, resulting in a negative margin (primary sales margin). This is offset by rebates and allowances received from manufacturers. (Omitted) The background to wholesalers compensating for their primary margin loss through such rebates and allowances is the established practice whereby manufacturers, who should not originally be involved in the distribution process, are deeply engaged in downstream transactions of prescription pharmaceuticals.”</p> <p>Tokyo Medical and Dental Practitioners Association (Translated)</p>

B Abandonment of Negotiating Power (2/2): Toho HD Has Abandoned Efforts to Gain Bargaining Power, Condoned Excessive Deference to Customers, and Continues to Maintain Irrational Logistics Operations

B-② Irrational Operations Driven by Excessive Deference to Presumed Customer Wishes

	Frequent and Urgent Deliveries	Duplicate Logistics for the Same Product
Business practices	<ul style="list-style-type: none">■ Because medical institutions do not wish to bear inventory risk, they request multiple deliveries in a single day and “urgent deliveries” of even a single piece of gauze or a single syringe, and wholesalers comply with these requests	<ul style="list-style-type: none">■ The same pharmaceutical products are being delivered by four major wholesalers, including Toho HD, each using separate trucks to the same department of the same customer
Issues	<ul style="list-style-type: none">■ Logistics costs are ignored, and delivery is treated as infrastructure that is simply “taken for granted.” Even in situations where “emergency delivery charges” or “small - lot delivery fees” should normally be invoiced, these services are provided free of charge under the name of good service <div><p>“There is in fact a longstanding commercial practice between pharmaceutical wholesalers and pharmacies/medical institutions whereby deliveries are made multiple times a day. It is said that this includes cases that are presumed not to be urgently needed. This has been pointed out as an example of excessive service provided by pharmaceutical wholesalers (<i>Omitted</i>).”</p><p>Mix Online (Translated)</p></div>	<ul style="list-style-type: none">■ Because they cannot differentiate themselves through products, they can only compete by providing “excessive service” to customers (such as high delivery frequency and constant solicitation of orders), which has led them into a war of attrition that ultimately harms themselves <div><p>“The pharmaceuticals handled by wholesalers are exactly the same products as those handled by other companies, which can be regarded as a unique characteristic of pharmaceuticals as a type of good. Because the products are identical, they cannot be differentiated by the products themselves, and pharmaceutical wholesalers are unable to demonstrate superiority in terms of product features. As a result, they are placed in an inferior position in terms of power relationships with both the sellers (pharmaceutical manufacturers) and the buyers (medical institutions and insured pharmacies), and are therefore compelled to conclude contracts under disadvantageous conditions regarding prices and transaction terms in negotiations.”</p><p>Challenges for Pharmaceutical Wholesalers in Pharmaceutical Distribution (Translated)</p></div>

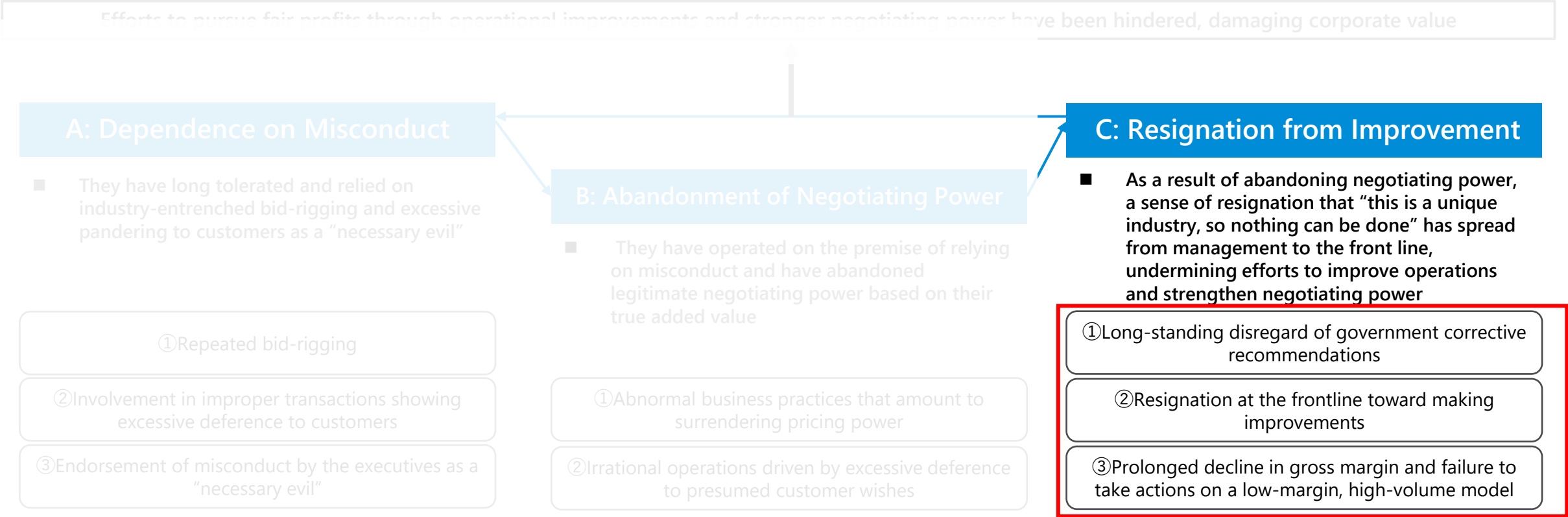
Source: Mix Online, “Urgent Deliveries from the Pharmacy’s Perspective: 60% Say ‘Almost None’ in a Day; 80% of Urgently Requested Drugs Are Non - Formulary, NPhA Survey”; Kenji Tomita, “Challenges for pharmaceutical Wholesalers in pharmaceutical Distribution.”

Toho HD's Pathology Has Created a Value-Destructive Negative Cycle

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Repeat

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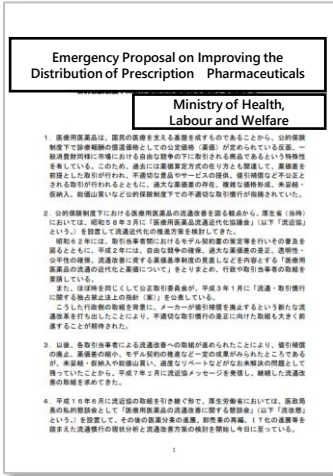
Explained in Detail on the Following Pages

C Resignation from Improvement (1/3): Despite the Government's Continued Demands to Improve the Above-Mentioned Abnormal Business Practices and Irrational Logistics Operations, Efforts to Correct Them Have Consistently Been Abandoned

C-① Long-Standing Disregard of Government Corrective Recommendations

Recommendation from the Ministry of Health, Labour and Welfare

- In 2007, the Ministry of Health, Labour and Welfare issued the “Emergency Proposal on Improving the Distribution of Prescription Pharmaceuticals,” calling for the correction of unsettled and provisional deliveries as well as lump - sum price transactions

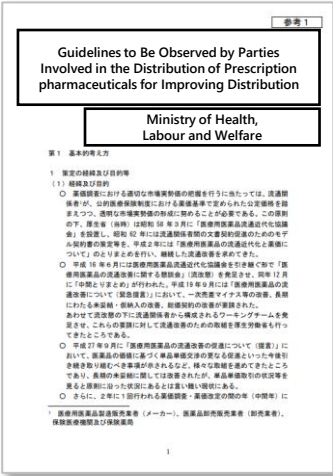


“Cases have been observed, particularly among medical institutions and dispensing pharmacies with large purchase volumes, where unsettled and provisional deliveries are continued over a long period. These transactions are not captured by drug price surveys and undermine the reliability of the current drug pricing system. Therefore, under the public medical insurance system, it is desirable that such transactions be corrected through negotiations between the individual contracting parties.”

Emergency Proposal on Improving the Distribution of Prescription Pharmaceuticals (Translated)

Revision of the Guidelines by the Ministry of Health, Labour and Welfare

- In the “Guidelines to Be Observed by Parties Involved in the Distribution of Prescription Pharmaceuticals for Improving Distribution,” established in 2018, it is clearly stated that contracts should be concluded requiring cost sharing for frequent deliveries and urgent deliveries



“Wholesalers shall explain to their counterpart insured medical institutions and insured pharmacies the number of frequent and urgent deliveries, the sharing of costs, and seek their understanding. In addition, when stable supply may be impeded or when wholesalers request cost sharing, a contract shall be concluded between the parties.”

Guidelines to Be Observed by Parties Involved in the Distribution of Prescription pharmaceuticals for Improving Distribution (Translated)

C Resignation from Improvement (2/3): In Light of Employee Reviews and the Findings of the Special Committee on Governance, It Is Clear that Frontline Staff Are Also Endorsing the Status Quo and Have Given Up on Making Improvements

C-② Resignation at the Frontline toward Making Improvements

Employee Reviews

- On employee review websites, there are many comments indicating that employees have accepted irrational business practices and operations and have given up on making improvements

“Although each employee should understand how we differ from our competitors, there is a stronger atmosphere of resignation toward our own company at the frontline. There is no one who speaks positively about the company.”

“Doctors and pharmacists tend to act in a lordly manner, so we have no choice but to comply with them (Omitted).”

“In order to obtain allowances, we also accept unreasonable requests from manufacturers, and this work takes a serious toll on our mental health.”

Employee Review Websites (Translated)

Findings of the Special Committee on Governance

- Furthermore, the chairperson of the Special Committee for Governance Enhancement has also pointed out regarding the Nihon University case that frontline employees lack a sense of awareness of the problems and are in a state of cognitive stagnation, regarding misconduct and irrational practices as “within the scope of normal business conduct.”
- This is objective evidence that frontline staff are endorsing the status quo and have given up on making improvements

“They may not even have been able to recognize (regarding the Nihon University case) the problems. (Omitted) I personally think they believed these were within the scope of normal business conduct. I am pretty sure my view is correct.”

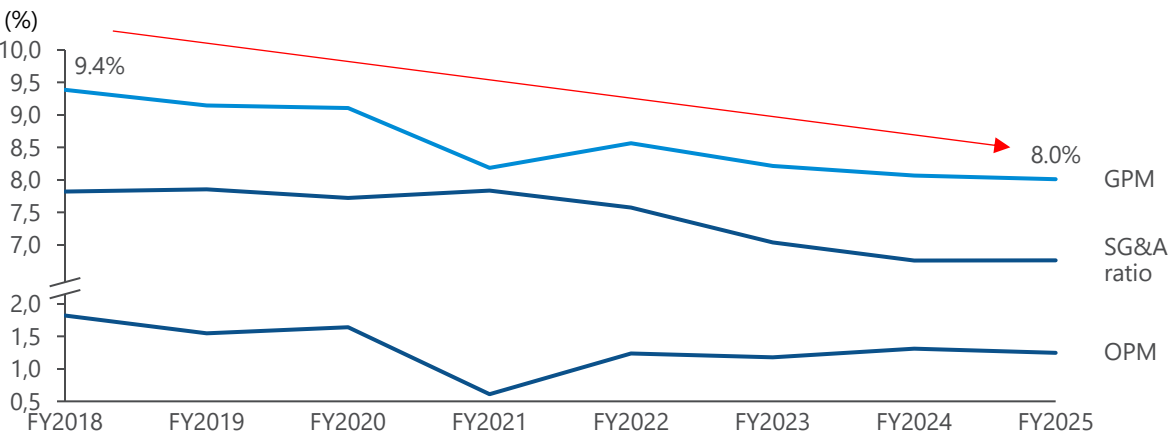
Minutes of the Interview with the Chairperson of the Special Committee for Governance Enhancement (Translated)

C Resignation from Improvement (3/3): The Gross Profit Margin Has Continued to Decline over Many Years, and CEO Edahiro Has Also Acknowledged This Situation

C-③ Prolonged Decline in Gross Margin and Failure to take actions on a Low-Margin, High-Volume Model

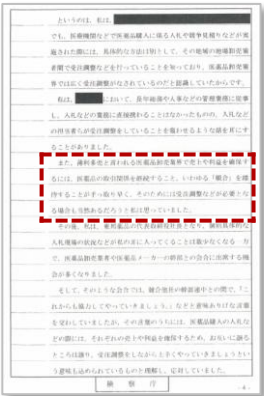
Decline in Gross Profit Margin¹

- The gross profit margin has been on a downward trend for many years, and the operating profit margin has been barely maintained only through the restraint of selling, general and administrative expenses



Failure to take actions on the Current “Low Margin, High Volume” Situation

- The current CEO, Mr. Edahiro fails to take measures on the current situation of “low margins and high volume.”



“In the low-margin, high-volume pharmaceutical wholesale industry, I believed that maintaining the existing business relationship was the easiest way to secure sales and profits, and that, for that purpose, it was naturally sometimes necessary to engage in order coordination and similar practices.”

Written statement by Mr. Edahiro from the prosecutor’s questioning regarding JCHO Case(Translated)

The Abandonment of Bargaining Power through Reliance on Misconduct Hinders Toho HD’s Pursuit of Fair Compensation and Appropriate Profits, and Impairs Its Corporate Value

Source: Company disclosure materials; Case 2020 (Tokuwa) No. 3100 Retained Case Records for Violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade Written Statement of CEO Edahiro
Note: [1] For FY2018–2023, figures have been adjusted so that information provision fees are included in net sales and operating profit, as is currently the case.

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