

Roundtable Discussion of Outside Directors Towards Enhancing Toray's Corporate Value



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In fiscal 2020, Toray reduced the number of Board members from 19 to 12, while increasing the number of outside directors from 2 to 4. The Company also expanded the composition of the Governance Committee, which, chaired by an outside director, serves as an advisory board to the Board of Directors and acts as the nomination and remuneration committee, to 3 internal members of the Board and 4 outside directors. In addition, the Company introduced an executive officer system to make management execution more flexible and efficient. In this roundtable discussion, the 4 outside directors exchanged their frank opinions on the new governance structure, Toray's issues, and their expectations for the Company.

Ito How would you like to be involved and what role would you like to play in the Board of Directors and Governance Committee in which you participate as an outside director?

Noyori With the introduction of the executive officer system, I think the roles of the Board of Directors and the Executive Committee have become clearer. Companies must properly manage their businesses in accordance with their respective philosophies and as public institutions trusted by society. Directors are responsible for weighing the appropriateness of various subjects for

discussion from this perspective. In addition, I think it is important to discuss medium- and long-term direction and issues. I believe that outside directors, in particular, must not only respond promptly to individual situations from an outside perspective, but also express their opinions more objectively and more fairly.

Kaminaga As a member of the Board of Directors, I believe that my fundamental role is to contribute to the realization of Toray's long-term corporate vision as outlined in the Toray Group Sustainability Vision, which sets out the world as envisioned by the Toray Group in 2050, and TORAY VISION 2030 (VISION 2030), which I see as an extension of all that Toray has cultivated over the years since its founding. With this in mind, I strive to monitor and provide advice from the perspective of how each operational issue is positioned in the Company as a whole, and how it demonstrates comprehensive capabilities across the entire Company, including horizontal expansion.

Within the Governance Committee, I would like to set out issues to be discussed on all governance matters and raise them to the Board of Directors. In addition, regarding its capacity as the nomination and remuneration committee, I intend to provide advice on how we should utilize core personnel for business promotion and on incentive and compensation systems from my business experience globally.

Futagawa Besides the essential role of deciding what is required by law and the Articles of Incorporation, I believe that the Board of Directors must also discuss Toray's overall direction. As a newcomer to the Company, I actively attended not only Board of Directors meetings, but also Vice Presidents meetings, as well as other meetings, including research presentations, that I was invited to, in order to gain a better understanding of the Company. I think I probably qualify for a perfect attendance award (laughs). As I had been working as an office worker for a long time in the hierarchy of the Ministry of Health, Labour and Welfare, I understand people tend to make comments gauging their bosses' feelings. Outside directors, on the other hand, are in a position to speak freely and independently of the organization, and I believe that discussions are becoming more active by raising issues from that perspective. I also think that the Governance Committee system is one that respects diverse ways of thinking, which I intend to bear in mind in my monitoring role.

Ito I attend Board of Directors meetings with the motto "read the context, not the mood" about agenda items. I know that it takes a long time to put the agenda together. But my feeling is that if I try to sense the mood of the people in charge and think too much about their efforts, I will be unable to say anything, so I steer clear of trying to "read the mood." That is number one.

Number two is to make judgements on a medium- to long-term basis. As those who are engaged in practical business submit items to pass, sometimes the medium- to long-term time perspective is overlooked. As an outsider, I'm very aware of this. However, Toray is a company where "long-term continuity" has taken root, so we may not have to worry too much about it. Number three, I am conscious of whether or not the Company's activities and the decisions made by the Board of Directors can be explained to stakeholders, including shareholders and other investors, and whether or not they have

been sorted and fine-tuned to an explainable level.

As chair of the Governance Committee, I am very conscious of making sure that governance is not only a question of form but also has substance. Substance is about action; it is not something that can be written into the rules of the Corporate Governance Code. There is no rule book to guide us, that means, how do we improve the quality and effectiveness of Toray's governance? In this respect, I think there have been great improvements. One example is the succession plan, which is now being discussed along with the names of candidates. I believe this is a reflection of our collective efforts to make the Governance Committee work.

Ito How do you apply your expertise and experience in the Board of Directors and Governance Committee?

Noyori My focus has been on education and research for a long time, and I have been involved in science and technology policy, keenly interested in the development of industrial technology. I do not have any knowledge of business management. But we have people with vast experience and knowledge in this field here, and I see my role as offering a different perspective. In the first place, I understand that the Board of Directors is a public-spirited organization consisting of people in leadership positions with broad management skills and high-level expertise. The CEO is then required to comprehensively synthesize this wisdom and make the final management decision. Under these circumstances, we cannot expect any individual to be omniscient. Rather, each individual director must recognize issues from their different perspectives, provide diverse opinions, and contribute to the overall judgment of the CEO. I hope that I can contribute to this.

Kaminaga I have been in positions involving corporate management from a medium- to long-term perspective, gaining experience in global business

development, from R&D to commercialization, and then to industrialization. Against that backdrop, I think I can say my skills include technology, business management, and global experience. As Mr. Ito has mentioned, Toray is engaging in unwavering management from a medium- to long-term perspective. However, if the medium- to long-term is the big picture, getting there also hinges on the details and the here and now. Even if Toray has a medium-to long-term perspective, what must be done today and tomorrow should not be neglected and postponed. In doing so, any medium- to long-term vision will be nothing more than a pie in the sky. From what I have seen over the past year, I do not think Toray has any concerns here, but I will continue to monitor it firmly based on my own experience.

Futagawa I have been involved in public administration and have learned the importance of disclosing negative information such as scandals to the public as soon as possible to show how they are being dealt with. I am ashamed to say that I had an experience where the situation got worse because of a delay in the disclosure of information. Thinking of it as an example of how not to behave, I would like to help the Company in the area of information disclosure and compliance.

Ito I have continued to make frequent comments based on my expertise in mainly governance, business administration, accounting, and ESG theory. From that standpoint, I would like Board members to have a strong awareness of the cost of capital. However, just having that awareness is not enough; I would like to participate in bringing this awareness into the Board's deliberations and up to the decision-making process. As a result, for example, the term cost of capital was introduced upon the discussion of the reduction of strategic holdings. During the past year, one issue that came up for discussion was that of listed subsidiaries. However, this issue was properly discussed, and the content of the disclosure

was selected as a best practice by the Tokyo Stock Exchange.

From an ESG perspective, I have been paying particular attention to the Task Force on Climate-related Financial Disclosures (TCFD). Amid growing interest in climate change issues globally, I would like to discuss TCFD at Board meetings. As digital transformation (DX) is also gaining traction, I hope to encourage efforts to raise Toray's DX level even higher.

Ito **In fiscal 2020, the number of members of the Board of Directors was reduced and its composition was altered. What changes do you feel this has brought about?**

Noyori With the introduction of the executive officer system, I think the agenda of Board of Directors meetings has become much more organized. On the other hand, I think we should probably have discussions on Toray's long-term vision and future plans for the post-COVID-19 era. There are people of all ages working at Toray, and I see this as our duty to the younger generation.

Ito The reduction in the size of the Board of Directors and the increase in the number of outside directors did not happen overnight, but were the result of the sincere efforts of President Nikkaku and the members of the Governance Committee to address related issues. The smaller scale has made discussions easier. The number of outside directors has increased, but their comments have actually become more frequent, and I feel that outside corporate auditors have also become more active in contributing comments. What I realized very keenly is that while we may say that governance is not about form but about substance, the changes in Toray's Board of Directors show that improving the form enhances the substance.

In addition to deliberations and reports, the Governance Committee discussed the inclusion of Discussion Items, which were promptly agreed to by

President Nikkaku and others.

Rather than just throwing out a proposal like an M&A deal and saying, “let’s discuss it and decide,” we should hold discussions on agenda items in advance that will be decided later. I think this has really improved the level of the Board of Directors.

Kaminaga I cannot say how things have changed as I did not know how things were last fiscal year. However, I believe I had some understanding of Toray’s business from the outside, and I attended all the meetings where participation was voluntary, as did Mr. Futagawa, to confirm my understanding. As a result, my impression was that the Vice Presidents Meetings functioned very well, and also that cross-functional capabilities such as R&D and marketing operated admirably.

To be honest, however, and as Mr. Noyori mentioned, I feel that the Board of Directors has not yet fully discussed Toray’s future. I believe this to be an agenda item that should be taken up and discussed at Board of Directors’ meetings. I think it is important for the Governance Committee to sort out those issues and bring them to the Board for discussion. The year 2030, which is the target year of VISION 2030, is just around the corner, and I think it is time for us to think more about what exactly we should do.

I also think that the Toray Group Sustainability Vision, envisioned by Toray Group in 2050, is also not that far off considering the theme of the vision. I am raising an issue, rather than stating the rate of change from last fiscal year.

Ito It is certainly hard to discuss things that are not on the agenda at Board meetings. I think it is very important for the effectiveness of the Board of Directors to deliberate on matters including the agenda as much as possible at the Governance Committee. Also, while resolutions need to be decided at the time they arise, Discussion Items do not. There is a lot of flexibility in agenda setting and I would like to see

us make better use of the Discussion Items section during Board meetings.

Ito Moving on, what are your thoughts on Toray’s value creation?

Futagawa It is vital to acquire earnings power to meet the expectations of shareholders and to properly return profits. At the same time, I believe that we cannot create lasting value unless we manage our business from a medium- to long-term perspective while taking into consideration our various stakeholders. In this respect, Toray has an excellent corporate philosophy: of “contributing to society through the creation of new value with innovative ideas, technologies and products.” I highly appreciate this philosophy as a corporate culture that motivates all employees to create new value.

Kaminaga Toray has many businesses and its strengths are disseminated in various ways, but they are all derived from its core technologies, and I believe that is its true strength. From what I have seen over the past year, I believe that Toray has established an excellent system to demonstrate its comprehensive strengths through technological fusion. Corporate management means to develop strengths and reduce weaknesses. With that in mind, I would like to see the Company dig deeper into its strengths and further expand them to create new value.

Noyori It is essential that Toray’s technological capabilities, which are the lifeline of the Company, remain at the top level globally. All employees of Toray, operating under the banner of leading-edge technologies, must commit themselves to this task. Industrial technologies are destined to continue the process of evolution and transformation through scientific progress. There is no such thing as maintaining the status quo. The fact that Toray has earned a deep trust from society as a technology-based materials company is due to the efforts of successive

generations of technology leaders, and the combination of a “pursuit of the ultimate limits” attitude and technological fusion. Toray has identified the Green Innovation (GR) and Life Innovation (LI) businesses as growth areas for the future, and I think this is the right direction. In addition, the Company has accumulated a wide range of technologies and knowledge that will enable it to grow in the medium- and long-term, and I feel that it is maintaining a level of competence that is unrivaled in the world. This is a great accomplishment, and I hope that the Company will continue to develop new technologies that contribute to the world without becoming overconfident.

Ito Toray is a company that specializes in materials and is also very focused on value-added products. It is also a treasure trove of new technologies. I think that “long-term continuity” is also a key feature and strength. The Company also has outstanding materials from the perspective of environmental issues and has affinity with the SDGs. Nowadays, the world is focusing on “ambidextrous management” because it is essential to not only deepen existing technologies but also to explore opportunities for new technologies. I believe that Toray is doing this very well.

However, I am not sure that the Company has done enough to get this across to investors, it seems to be a bit of a waste. Ambidextrous management is a difficult thing to pull off. Toray has been able to monetize its GR and LI businesses, and I hope the Company can communicate more about them in the dialogue with investors.

Ito **Next, what are your views on the risks and issues facing Toray?**

Noyori From the standpoint of risk, while it is easy to become complacent in light of past successes and fall into the trap of merely continuing existing businesses, I think this is an issue that is common to all manufacturing industries in Japan. Again, technologies continue to advance. With the rise of companies

from Asia, Japanese companies, including Toray, will not be able to maintain global competitiveness if they are on the defensive. Toray’s businesses span the large and small, and have a wide variety of products, but I think there needs to be courage to exit those areas where the Company is not in the top five in the world. And of course, new winning products need to be created.

I believe that in the future, the emphasis will be on functionality rather than the structural properties of materials. We cannot break away from mass production and mass consumption by simply producing versatile structures such as fibers and plastics from petroleum raw materials. Looking to the future, we need materials that contribute to a circular economy, such as those that will lead to a fundamental reduction of plastic waste. At the same time, the physical functions required for electronic materials and the biological functions required for pharmaceutical materials are becoming evermore sophisticated, and highly useful materials that provide these functions are becoming more and more necessary. After all, we cannot create value without new materials. I believe that the world has very high expectations for Toray. I think the idea that materials have the power to fundamentally change society is absolutely true. To meet such expectations, I would like to see all of Toray’s people embrace “inner innovation” and focus on inventing innovative materials with a view to the future, as the Company did with carbon fiber in the past. To this end, we need the spirit of a researcher, and I would ask for patience and tolerance on the part of management.

Kaminaga As Mr. Noyori aptly pointed out, I am keenly aware that the “functional” aspects of materials is becoming more important than their “structural” properties. In past business activities, I have been engaged in the microfabrication of new materials. Now, the Company is facing a situation where it needs to think of processing that enhances the functionality of the material itself, rather than just saying,

“we invented a new material, please process it.” For example, the brightness of LEDs varies considerably depending on how the material is processed as the material itself has its innate properties. This makes us think how we can bring materials to the fore, which is a golden opportunity, or conversely poses a risk if we make one false step.

Also, the business environment is changing at an accelerated pace. To be honest, as we are coexisting with COVID-19, anything can happen in this world. That is why I have often said that companies need to have a medium- to long-term vision, and actions need to be taken swiftly. I have seen Toray facing the COVID-19 pandemic, and I think it has excellent risk tolerance. However, I believe that we should make ourselves more resilient by being prepared for the unexpected to happen again. Also, given the diverse nature of the businesses, I am a little worried about sectionalism. I feel that everyone is very conscious about avoiding this. But I think it can happen before you know it. So, I think this is one of the points that I should monitor as an outside director. One of the issues is that there is a limit to what Toray alone can do, even if it had materials with the power to change society. So when it is better to work with a partner, I think the question is how far we can proceed and still successfully secure commercial application.

Futagawa With carbon fiber, Toray has reaped the fruits of a sustained commitment over 50 years while never giving up. That represents nothing but long-term continuity as most companies gave up halfway through. However, we must not expect the same in all areas of our research. If we do that, the risk of research items not bearing fruit is incalculable. It is important for us to think about a risk-taking approach appropriate for our size, and seek ways to reduce risks in every way possible, while maintaining our long-term continuity.

Meanwhile over the past year, I have had the opportunity to see a variety of research presentations, ranging from laboratory-level talks about how

good a product is, to discussions about something that could be ready for commercialization in two to three years. I have been excited and impressed. By the same token, it would be a danger signal if there were only a handful of laboratory-level presentations. In this regard, I think one of the issues and risks is whether we can maintain the motivation of employees who are trying to create something with their unfettered thought.

Ito As I mentioned earlier, I think there is still room for improvement in such areas as the frequency of dialogue with investors. Even though we have had very positive feedback, is it reflected in our corporate value? Frankly, I think there is a gap between the intrinsic value of Toray and the share price as set in the capital markets. I do not think Toray has fallen into a conglomerate discount because of its wide range of businesses, but I think there is room for improvement in ensuring that investors really understand Toray’s potential. Even if there is a little negative talk about Toray in the market, investors who believe that Toray has outstanding capabilities will not sell the Company’s shares, and even if the stock price drops temporarily, it will soon bounce back. Dialogue is important to increase such supportive investors.

Another issue I see is the need to think more about our strategies regarding the balance between prices and added value. In addition, as is often said, strengths sometimes become risks. How do we deal with the fact that what we identified as value-added products see their potential erode in the face of mass production by price-competitive Chinese companies? Also, I would like the Board of Directors to discuss how to allocate capital across the Company, and in particular how to position the pharmaceutical and medical device fields in the overall business portfolio. Since Toray is engaged in such a wide range of businesses, insufficient resources tend to be allocated to each. How can we apply selection and focus in this context? While focusing on long-term continuity, which is considered a strength, the Company

must also renew its business from the perspective of selection and focus. From this standpoint, I believe that how we make management decisions will be a major issue in the future.

Another point I would like to mention is that whereas open innovation with university research institutes has become very advanced, I feel that efforts with startups are lagging. I think Toray needs to learn to be agile in an entrepreneurial way by actively collaborating with startups, and that we have some issues in this area.

the technology and business organizations, or are people being held back? I think we need to reevaluate whether Toray's internal organization is sufficiently functional in terms of brainstorming between different fields and agile activities as mentioned by Mr. Ito.

DX should not be seen merely as improvement of business efficiency, but also as something that is important for cultivating co-creation capabilities.

Also, we need to promote more open innovation in Japan and overseas. No matter how outstanding Toray's research or technological capabilities are, its



Ito Lastly, what are your expectations for Toray in the future?

Noyori I only know about research and technology. However, the Company needs to develop not only its individual technological competitiveness, but also the ability to work together with others within and outside the Company, both domestically and globally. I believe that comprehensive “knowledge integration” is essential for sustainable value creation.

A question in point is are there barriers between

pool of wisdom is too small to realize its global potential. I also believe that the intellectual property and technologies we have accumulated should not be locked up in a vault, but rather used to the fullest extent for the benefit of Toray and the world.

Toray has many technologies that are very attractive to companies inside and outside of Japan. I hope that we can cultivate our technological diplomacy for Toray's further development.

Kaminaga I think that Toray should have more of a spirit of an entrepreneur. Mr. Ito talked about

“ambidextrous management.” This might mean allocating 80% to profitable current businesses and 20% to businesses with an eye on the future. I would like to see Toray become a world class role model that can demonstrate that this balance is sustainable and leads to the realization of Toray’s corporate philosophy. To that end, it is important that each person plays their role with a shared awareness of this. I would like to fulfill my responsibilities as an outside director with that in mind.

recognize the importance of fostering more of the feeling “I developed this new technology.” Another aspect of entrepreneurship is speed. Since “long-term continuity” is Toray’s strength, it may sound like a contradiction in terms, but I think Toray needs to enhance the ability in terms of “long-term continuity with speed.” In other words, I would like the Company to enhance and upgrade what needs to be continued, while speedily reviewing its businesses. I like to use the term “far analogies” when referring to the knowledge integration mentioned by Mr. Noyori. I would like to see Toray produce many people with “far analogies” who can create new technologies to solve social issues by



Futagawa I believe that Toray has technologies that can change society in the areas of GR and LI, and I would like to see the Company contribute to society by fully exploring such technologies. In addition, just as we improve the function of fibers & textiles for apparel-use every year, I would like to support companies that are always motivated to make improvements in all their activities and work as one to realize their philosophy.

Ito I have often heard CEOs of startups say, “I created my company to solve these social problems.” I also

making full use of their knowledge and imagination in seemingly distant fields. I would like Toray to develop its future in the 21st century by promoting a human resources strategy from this perspective.

Noyori Finally, a word of thanks. I would like to add that all of the outside directors here highly appreciate the Chief of Investor Relations’ efforts in providing the Board of Directors with frank feedback from outside parties, including investors.

*Kunio Ito, Director, served as the facilitator for this roundtable discussion.