Sumitomo Pharma

Press Release

December 17, 2024

Sumitomo Pharma Co., Ltd.

Notice Regarding Company Split (Simplified Absorption-type Company Split) of the Regenerative Medicine and Cell Therapy Business and Transfer of Subsidiary Shares

Sumitomo Pharma Co., Ltd. (Head Office: Osaka, Japan; Representative Director, President and CEO: Toru Kimura), as it disclosed the plan in its conference on second quarter FY2024 financial results held on October 30, 2024, has been considering the reorganization of its regenerative medicine and cell therapy business (“the business”), including the establishment of a new company through joint investment with Sumitomo Chemical Co., Ltd. (Head Office: Chuo-ku, Tokyo, Japan; “Sumitomo Chemical”). The Company today announced that its Board of Directors’ meeting, held on December 17, 2024, passed a resolution to carry out the reorganization (“the reorganization”) of the business with Sumitomo Chemical, RACTHERA Co., Ltd. (pronounced as RAK-thera, “RACTHERA”), and S-RACMO Co., Ltd. (pronounced as ES-RAKmo, “S-RACMO”), a joint venture between the Company and Sumitomo Chemical, as follows:
(i) Split off the business of the Company and transfer it to RACTHERA and S-RACMO (“the absorption-type company split”).
(ii) After the absorption-type company split becomes effective, 66.6% of the shares in RACTHERA will be transferred to Sumitomo Chemical (“the share transfer”).

1. Purposes of the Absorption-type Company Split and the Share Transfer

The Company is working on various measures to achieve early business recovery and renewed growth, aiming to transform fiscal 2024 into a turning point for the growth of the Company group.

Building on strengths in the business ranging from (i) its network of open innovation with academia, venture businesses, and other industries to its research and (ii) development capabilities pivoted around the accumulation of technologies for the practical application of iPS cells, such as pluripotent stem cell differentiation technology, and (iii) its extensive manufacturing capabilities related to cell manufacturing spanning technology, know-how, infrastructure to human resources, it aims to bring the world's first iPS cell-derived products to market, and providing new value that can only be delivered through regenerative medicine as the “front-runner” in the development of cell products using iPS cells.

Sumitomo Chemical has been working on fundamental research using ES cells and joint research with the Company in the realms of regenerative medicine and cell therapy field. Sumitomo Chemical has also been investing in S-RACMO together with the Company as a next-generation growth driver, focusing on cutting-edge medical-related businesses, such as contract development and manufacturing organization (CDMO) businesses, including the development of manufacturing methods and manufacturing in the field of regenerative medicine and cell therapy, as the core of new growth areas.

Through the absorption-type company split and the share transfer, the Company and Sumitomo Chemical will reorganize the pharmaceutical business in the regenerative

medicine and cell therapy field into RACTHERA. In addition, through the absorption-type company split, the related manufacturing functions will be consolidated into S-RACMO, which is engaged in the CDMO business in the same field. By further strengthening group collaboration in the business and operating RACTHERA and S-RACMO as an integrated unit, the Company will carry out research and development and investment in manufacturing facilities to accelerate the commercialization and launch of products derived from iPS cells. Furthermore, the Company will leverage its technology and expertise in the regenerative medicine and cell therapy field to support the development of iPS cell-derived products by RACTHERA.
Through the reorganization, the Company can expect to reduce the immediate burden of research and development expenses under the current severe profit and financial situation, while strengthening the foundation of the business through technological synergies with Sumitomo Chemical, by bearing the investment burden in research and development and manufacturing facilities required for the commercialization and launch of iPS cell-derived products in proportion to its ownership ratio. In addition to the revenue from RACTHERA, the Company will receive an upfront payment of approximately 2 billion JPY as consideration for the share transfer to Sumitomo Chemical. Furthermore, if the conditions of the share transfer agreement are met, the Company will receive development milestones (up to approximately 4 billion JPY) based on development achievements, and sales milestones (up to approximately 150 billion JPY) based on the growth of the business. Moreover, the Company will continue to examine the optimal business structure together with Sumitomo Chemical to further accelerate development and expand the business. In this way, the Company believes that the reorganization is significantly contribute to improving its corporate value and achieving its sustained growth.

2. Schedule for the Absorption-type Company Split and the Share Transfer

Date of the board of directors' resolution to approve the conclusion of the absorption-type company split and the share transfer contract	December 17, 2024
The absorption-type company split and the share transfer contract date	December 17, 2024
The absorption-type company split effective date	February 1, 2025 (planned)
The share transfer execution date	February 1, 2025 (planned)

The absorption-type company split shall be implemented without obtaining the approval thereof by a resolution of the Company’s shareholders’ meeting, as it is a simplified company split for the Company as stipulated in Article 784, Paragraph 2 of the Companies Act of Japan.

3. Outline of the Absorption-type Company Split

(1) Company Split Method

An absorption-type company split (a simplified company split) in which the Company shall be the splitting company and RACTHERA and S-RACMO are the succeeding companies

(2) Share Allotments relating to the Company Split

As compensation for the absorption-type company split, the Company shall receive 999 common shares of RACTHERA and approximately 2.07 billion JPY from S-RACMO.

(3) Treatment of Share Options and Bonds with Share Options following Company Split
The Company has issued neither any share options nor bonds with share options.

(4) Increase or Decrease in Capital Due to the Company Split
There will be no increase or decrease in the Company's capital due to the company split.

(5) Rights and Obligations to be Succeeded by the Succeeding Company
RACTHERA shall succeed to the assets, liabilities, and status under contracts (excluding employment contracts) related to the business (excluding manufacturing) of the Company thereof to the extent specified by the absorption-type company split agreement.
S-RACMO shall succeed to the assets, liabilities, and status under contracts (excluding employment contracts) related to manufacturing in the business of the Company thereof to the extent specified by the absorption-type company split agreement.
As regards the succession of the obligations, it will be carried out by the assumption of obligation releasing an old obligor.

(6) Prospect for Fulfillment of Obligations
The Company has concluded that there will be no problems regarding the certainty of fulfilling the obligations to be borne by the Company, RACTHERA, and S-RACMO after the absorption-type company split.

4. Basis for allocation of shares in the Absorption-type Company Split and the Share Transfer
(1) Basis and reasons for details of allotment
RACTHERA will issue 999 ordinary shares as the consideration for the business to be taken over by RACTHERA ("the relevant business (RACTHERA)") and transfer them to the splitting entity, which is the Company, upon the absorption-type company split.
Upon the absorption-type company split, S-RACMO will transfer approximately 2.07 billion JPY to the splitting entity, which is the Company, as the consideration for the business to be taken over by S-RACMO ("the relevant business (S-RACMO)").

(2) Matters concerning calculation
(i) Name of the calculation agent and its relationship with the Company, RACTHERA, S-RACMO, and Sumitomo Chemical
As part of measures to ensure fairness in the calculation of consideration for the share transfer, the Company selected Deloitte Tohmatsu Financial Advisory LLC ("DTFA") as the third-party calculation agent independent of the Company, RACTHERA, S-RACMO, and Sumitomo Chemical, and requested DTFA to calculate

the stock value of the share transfer. DTFA does not constitute a related party of the Company, RACTHERA, S-RACMO, or Sumitomo Chemical, and has no significant interest in the Company, RACTHERA, S-RACMO, or Sumitomo Chemical.

(ii) Outline of the calculation

In analyzing the valuation of the relevant business (RACTHERA) and RACTHERA, DTFA adopted the discounted cash flow method (DCF method), in which valuation is based on cash flow that is expected to be gained from future business activities, to reflect the state of such business activities in the appraisal, and calculated the RACTHERA stock value on the basis of the business plan provided by the Company. DTFA calculated the assumed range of the overall RACTHERA stock value to be 7,539 million to 24,908 million JPY. Since the share transfer concerns 66.6% of the shares in RACTHERA, the relevant stock value is 66.6% of the above range, or 5,021million to 16,589 million JPY.

In preparing the business plan to be submitted to DTFA, the Company reflected the latest development plan for the pipelines at the clinical development stage in the relevant business (RACTHERA), and set the probability of development success by referring to external data. For future business income, the Company set the preconditions of the market scales and prices of relevant products, using external epidemiological data and results of interviews with experts in regard to relevant diseases as references. This business plan was confirmed by the Company's management. It was reported at the Supervisory Committee for Conflict of Interests in Transactions between Group Companies, as described later.

DTFA confirmed that the Company had followed the above steps to set the preconditions, including the probability of development success, but did not make their own assessment on the contents. Therefore, DTFA's calculation of the value is based on the assumption that the business plan had been prepared by the Company's management with their best possible efforts at that time. DTFA's calculation of the value was made for the sole purpose of internal use by the Company as a reference material for its management decisions.

In view of the fact that the relevant business (RACTHERA) carries the risk associated with drug development and requires research and development as well as capital expenditure for the time being, the Company discussed with the other party, Sumitomo Chemical, and agreed to set development milestones, which are based on the achievement of development, and sales milestones, which are based on the extent of business development, in addition to the up-front payment, instead of paying the consideration for the share transfer in a lump sum at the time of execution. Specifically, in addition to an up-front payment of approximately 2 billion JPY, the Company receives development milestone payments (up to approx. 4 billion JPY) and sales milestone payments (up to approx. 150 billion JPY), which are subject to meeting conditions prescribed in the agreement. As the result of a preliminary study by the Company, the current value of all of these, obtained using a discount calculation by considering the probability and time of achievement, is consistent with the result of stock value calculation by DTFA. The Company made the final decision on the consideration above by taking into account business value and the result of stock value calculation by DTFA, through discussions / negotiations with Sumitomo Chemical.

Concerning the consideration for the absorption-type company split into S-RACMO, multiple calculation methods were studied for the calculation of the value of the relevant business (S-RACMO). For the relevant business (S-RACMO), tangible fixed assets make up the majority of relevant assets, and no important intangible assets are expected to be created in the future. Through discussions with external experts, the Company concluded that the cost approach (based on book value) would be one of reasonable calculation methods in calculating the value of such type of business and decided to use this method for the appraisal of the relevant business (S-RACMO). For the absorption-type company split, the calculation of value by a third-party organization was not carried out.

(3) Prospect and reason for delisting
Not applicable.

(4) Measures to secure fairness
The consideration for the relevant business (RACTHERA) in the absorption-type company split into RACTHERA is shares, and the fairness of transactions between the Company and RACTHERA is considered appropriate because RACTHERA is a wholly owned subsidiary of the Company.
Measures to ensure the fairness in the share transfer to Sumitomo Chemical and in the absorption-type company split into S-RACMO are described later in “11. Matters concerning transactions with controlling shareholders, etc., (2) Measures to ensure fairness and measures to avoid conflicts of interest.”

(5) Measures to avoid conflicts of interest
Transactions related to the share transfer to Sumitomo Chemical and the absorption-type company split into S-RACMO constitute transactions with the parent company. Accordingly, appropriate measures have been taken to deal with conflicts of interest, as described later in “11. Matters concerning transactions with controlling shareholders, etc., (2) Measures to ensure fairness and measures to avoid conflicts of interest.” In addition, Mr. Hiroshi Niinuma, member of the Board of Directors of the Company who concurrently serves as a Director of Sumitomo Chemical, participates in deliberations at the Company’s Board of Directors’ meetings as a director not responsible for the execution of the Company’s business, but do not participate in a series of discussions with Sumitomo Chemical or resolutions at the Company’s Board of Directors’ meetings in regard to the reorganization, from the standpoint of ensuring fairness in the decision-making process and avoiding conflicts of interest at the Company. Mr. Motoyuki Sakai, Representative Director of the Company who served as a representative director at Sumitomo Chemical until June 2024, participates in a series of deliberations and resolutions at the Company’s Board of Directors’ meetings on the reorganization as the Company’s Representative Director and Executive Vice President, in light of the fact that he does not hold any post at Sumitomo Chemical at present.

5. Overview of the Splitting Company (as of September 30, 2024)

(1) Company name	Sumitomo Pharma Co., Ltd.

(2)	Location	6-8, Doshomachi 2-chome, Chuo-ku, Osaka, Japan
(3)	Representative name and title	Toru Kimura, Representative Director, President and CEO
(4)	Business	Manufacturing and sales, etc. of pharmaceuticals and others
(5)	Capital	22.4 billion JPY
(6)	Establishment	May 14, 1897
(7)	Outstanding shares	397,900,154
(8)	Fiscal Year-End	March 31
(9)	Employees	2,709
(10)	Major clients	MEDICEO CORPORATION, Alfresa Corporation, SUZUKEN CO., LTD.
(11)	Main banks	Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited, MUFG Bank, Ltd.
(12)	Major shareholders and shareholding ratio	Sumitomo Chemical, 51.76%
(13)	Financial position and operating results at the end of the previous fiscal year (the fiscal year ended March 31, 2024 (consolidated))	
	Capital	156,136 million JPY
	Assets	907,506 million JPY
	Equity attributable to owners of the parent per share	392.82 JPY
	Revenue	314,558 million JPY
	Operating profit (loss)	(354,859 million JPY)
	Net profit (loss)	(314,929 million JPY)
	Basic earnings per share	(792.79 JPY)
	Dividends per share	0 JPY

6. Overview of the Succeeding Companies (as of December 17, 2024)

		Succeeding Company (1)	Succeeding Company (2)
(1)	Company Name	RACTHERA Co., Ltd.	S-RACMO Co., Ltd.
(2)	Location	2-7-1 Nihonbashi, Chuo-ku, Tokyo, Japan (on the premises of the Company's Tokyo Head Office)	33-94, Enoki-cho, Suita, Osaka, Japan (on the premises of the Company's Central Research Laboratories)
(3)	Representative name and title	Atsushi Ikeda, Representative Director	Atsushi Tsuchida, Representative Director

		and President	and President
(4)	Business	Research, development, manufacture, sales, and import and export of regenerative medicine and cell therapy products, cell processing products, and regenerative medicine and cell therapy-related products	CDMO of development of manufacturing methods and manufacturing for regenerative medicine and cell therapy products
(5)	Capital	1.00 million JPY	50.00 million JPY
(6)	Establishment	November 15, 2024	September 1, 2020
(7)	Outstanding shares	1	1,000
(8)	Fiscal Year-End	March 31	March 31
(9)	Employees	0	29
(10)	Major clients	Sumitomo Pharma Co., Ltd.	Sumitomo Pharma Co., Ltd. Sumitomo Chemical Co., Ltd.
(11)	Main banks	Sumitomo Mitsui Banking Corporation	Sumitomo Mitsui Banking Corporation
(12)	Major shareholders and shareholding ratio	Wholly owned subsidiary of the Company	Sumitomo Chemical 66.6%, the Company 33.4%
(13)	Relationship between the Company, RACTHERA and S-RACMO		
	Capital relationship	The Company currently owns 100% of the issued shares of RACTHERA	The Company currently owns 33.4% of the issued shares of S-RACMO
	Personal relationship	One employee seconded from the Company	18 employees seconded from the Company
	Business relationship	Not applicable	The Company is leasing the land and other facilities for a factory to S-RACMO in Suita, Osaka, and has commissioned manufacturing and testing to it. Additionally, The Company has provided it with a loan.
	Status of applicability to the related parties	The Company's consolidated subsidiary	The Company's associate
(14)	Financial position and operating results at the end of the previous fiscal		

year (the fiscal year ended March 31, 2024 (consolidated))		
Capital	–	153 million JPY
Assets	–	2,149 million JPY
Equity attributable to owners of the parent per share	–	153,000 JPY
Revenue	–	791 million JPY
Operating profit (loss)	–	133 million JPY
Net profit (loss)	–	83 million JPY
Basic earnings per share	–	83,000 JPY
Dividends per share	0 JPY	0 JPY

7. Overview of the Business Division to be Split Off
(1) Description of the business to be Split Off

Succeeding companies	Description of the division to be split off
RACTHERA	The business of Company, excluding activities related to manufacturing plants
S-RACMO	The business of Company, activities related to manufacturing plants

(2) Operating results of the Division to be Split Off
Revenue (FY2023): 0 JPY

(3) Items and Amounts of Assets and Liabilities to be Split Off (as of September 30, 2024)
<RACTHERA>

Assets		Liabilities	
Item	Book value	Item	Book value
Current assets	68 million JPY	Current liabilities	290 million JPY
Fixed assets	4,321 million JPY	Fixed liabilities	458 million JPY
Total	4,389 million JPY	Total	748 million JPY

＜S-RACMO＞

Assets		Liabilities	
Item	Book value	Item	Book value
Current assets	0 JPY	Current liabilities	3 million JPY
Fixed assets	2,078 million JPY	Fixed liabilities	0 million JPY
Total	2,078 million JPY	Total	3 million JPY

Note: The actual amount to be succeeded will be adjusted for any increases or decreases up to the effective date of the transaction.

8. Status of the Company, RACTHERA and S-RACMO after the Company Split
The names, description of the business, locations of the head offices, representatives, capital and fiscal year of the Company and S-RACMO after the company split will remain unchanged.

After the absorption-type company split, 66.6% of the shares in RACTHERA (666 shares) are slated to be transferred to Sumitomo Chemical on the execution date of the share transfer. Changes arising with the share transfer are as follows. RACTHERA's name, description of the business, head office location, capital, and fiscal year will remain unchanged.

		Before the change	After the change
(1)	Representative name and title	Atsushi Ikeda, Representative Director and President	Atsushi Ikeda, Representative Director and President
(2)	Major shareholders and shareholding ratio	The Company, 100%	Sumitomo Chemical, 66.6% The Company, 33.4%
(3)	Shares owned	The Company, 1,000 shares	Sumitomo Chemical, 666 shares The Company, 334 shares
(4)	Ownership ratio of voting rights	The Company, 100%	Sumitomo Chemical, 66.6% The Company, 33.4%

The Company's capital and assets after the company split are currently under review, and will be announced as soon as it is determined.

Overview of the counterparty to the Share Transfer (as of March 31, 2024)

(1)	Company Name	Sumitomo Chemical Co., Ltd.
(2)	Location	2-7-1 Nihonbashi, Chuo-ku, Tokyo, Japan
(3)	Representative name and title	Keiichi Iwata, Representative Director & President
(4)	Business	Agro & Life Solutions Sector, ICT & Mobility Solutions Sector, Advanced Medical Solutions Sector, Essential & Green Materials Sector, etc. (as of October 1, 2024)
(5)	Capital	90,059 million JPY (as of October 1, 2024)
(6)	Establishment	June 1, 1925
(7)	Financial position and operating results at the end of the previous fiscal year (the fiscal year ended March 31, 2024 (consolidated, IFRS)	
	Capital	1,164.4 billion JPY
	Assets	3,934.8 billion JPY
(8)	Major shareholders and shareholding ratio	The Master Trust Bank of Japan, Ltd. (trust account), 14.14% Custody Bank of Japan, Ltd. (trust account), 6.02% Sumitomo Life Insurance Company, 4.33% BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1 (Standing proxy MUFG Bank, Ltd.), 2.94% Nippon Life Insurance Company, 2.50%
(9)	Relationship between the Company and Sumitomo Chemical	
	Capital	Parent company that owns a 51.78% share of voting

relationship	rights in the Company.
Personal relationship	134 employees in the manufacturing division at the Company's Oita Plant and three other employees have been seconded to the Company.
Business relationship	The Company leases land, etc. from Sumitomo Chemical for research laboratories and plants in Konohana-ku, Osaka and Oita, Oita Prefecture, etc. It purchases utilities such as electric power and steam used at these laboratories and plants. It mainly purchases raw materials used to manufacture active pharmaceutical ingredients at the Oita Plant. In addition, the Company receives debt guarantees from this company for debt owed to financial institutions and debt related to accounts receivable transfer.
Status of applicability to the related parties	Parent company and major shareholder as the largest shareholder

9. Overview of Accounting Treatments
Accounting standards to be applied are currently under review.

10. Financial Impact on Business Performance
The impact of the absorption-type company split and the share transfer on our consolidated financial results will be announced as soon as they are clear, since the fair value of the milestone, which is a component of the consideration for the share transfer, and other factors are currently being calculated.

11. Matters concerning transactions with controlling shareholders, etc.
(1) Relevance to transactions with controlling shareholders, etc. and the status of compliance with the policy on measures to protect minority shareholders
S-RACMO has the same parent company (Sumitomo Chemical) as the Company, and hence the absorption-type company split into S-RACMO constitutes a transaction with the controlling shareholder. In addition, the absorption-type company split into RACTHERA and share transfer to Sumitomo Chemical after the absorption-type company split constitute, as a series of transactions, transactions with the controlling shareholder.
The Company, in its Corporate Governance Report released on July 1, 2024, established the policy on measures to protect minority shareholders in carrying out transactions with controlling shareholders, etc. ("the policy"). The policy requires the Company to obtain approval at a Board of Directors' meeting attended by independent outside directors when entering into a transaction with the parent company, in order to ensure fairness and rationality from the standpoint of enhancing the Company's corporate value. Through this and other means, the Company properly controls transactions with the controlling shareholder according to the importance of the transaction. In addition, for important transactions with the Company's parent company or its subsidiaries (excluding the Company and its subsidiaries), etc., the

Supervisory Committee for Conflict of Interests in Transactions between Group Companies, which consists of all of the independent outside directors and was established as an advisory body to the Board of Directors, is required to conduct deliberations from the standpoint of protecting minority shareholders. The Basic Policy on Corporate Governance states that the Board of Directors must respect reports from the Supervisory Committee for Conflict of Interests in Transactions between Group Companies.
The Company has made the decision on the transactions concerned in accordance with the Basic Policy on Corporate Governance and on the basis of deliberations and a report by the Supervisory Committee for Conflict of Interests in Transactions between Group Companies, as described later in (2). The Company considers that the transactions concerned are compliant with the policy and the procedures are appropriate.

(2) Measures to ensure fairness and measures to avoid conflicts of interest
In assessing the absorption-type company split and the share transfer, the Company's Supervisory Committee for Conflict of Interests in Transactions between Group Companies held a total of four committee meetings as well as discussions on an as-needed basis from July 31, 2024 to November 29, 2024, to understand and discuss the purpose, background, intent, and outline of the reorganization, as well as the details of business, the details of business value, and the development of negotiations with Sumitomo Chemical regarding the terms and conditions of the reorganization. After that, the Committee, in the committee meeting held on December 17, 2024, received explanations about the development of negotiations on the terms and conditions of the reorganization, including economic conditions, and the decision-making process, and then conducted careful deliberations and discussions on the appropriateness of the transaction purpose, the validity of transaction conditions, and the fairness of transaction procedures. The Committee then concluded that the decision to carry out the transactions concerned would not be adverse to the interests of the minority shareholders of the Company, and reported it at the Board of Directors' meeting held on the same day.
On the basis of the above-mentioned report by the Supervisory Committee for Conflict of Interests in Transactions between Group Companies above, the Company's Board of Directors approved the conclusion of the agreement in relation to the absorption-type company split and the share transfer in the Board of Directors' meeting held on December 17, 2024. The Company concluded the agreement on December 17, 2024.
As described in “4. Basis for allocation of shares in the absorption-type company split and the share transfer, (5) Measures to avoid conflicts of interest,” Mr. Hiroshi Niinuma, member of the Board of Directors of the Company who concurrently serves as a Director of Sumitomo Chemical, participates in deliberations at the Company's Board of Directors' meetings as a director not responsible for the execution of the Company's business, but do not participate in a series of discussions with Sumitomo Chemical or resolutions at the Company's Board of Directors' meetings in regard to the reorganization, from the perspectives of ensuring fairness in the decision-making process and avoiding conflicts of interest at the Company. Mr. Motoyuki Sakai, Representative Director of the Company who served as a Representative Director at Sumitomo Chemical until June 2024, participates in a series of deliberations and

resolutions at the Company's Board of Directors' meetings on the reorganization as the Company's Representative Director and Executive Vice President, in light of the fact that he does not hold any post at Sumitomo Chemical at present.

(3) Overview of the opinion obtained from a person who has no conflict of interest with the controlling shareholder that the transaction is not adverse to the interests of minority shareholders
Described below is the overview of the deliberation and report by the Supervisory Committee for Conflict of Interests in Transactions between Group Companies, held on December 17, 2024, concerning the share transfer involving RACTHERA and the absorption-type company split involving S-RACMO.

(i) The Share Transfer involving RACTHERA
The business, which the Company has cultivated over the years by bringing together its technologies and wisdom, constitutes a core business of the Company. While the commercialization of the business requires continuous investment in research and development as well as capital expenditure for the establishment of a manufacturing system, the Company's current financial conditions only allow limited investments in the business in a research and development stage. In addition, if the Company continues the business independently, the drastic review will be needed for the research and development system and the business model; however, in order for the Company to maintain its business foundation as an R&D-led pharmaceutical company, it is necessary to take measures to externally raise funds for the business. Receiving an investment corresponding to 66.6% of the shares in RACTHERA, which will engage in the business, from Sumitomo Chemical through the share transfer will make it possible to secure research and development / capital expenditure funds, necessary to maximize the business, in a more stable manner than in the case where the Company promotes the business on its own.
An agreement has been reached with Sumitomo Chemical about the continuation of the development of the clinical-stage pipeline. In addition, it is ensured that the Company continues to get involved in the decision-making process and business management of RACTHERA by making investments and dispatching executives. To achieve the earliest possible commercialization of the business, it is crucial to capitalize on the experience, know-how, and pharmaceutical function that the Company has accumulated. Collaboration between the Company and RACTHERA within the Sumitomo Chemical Group is considered a framework that can make the most of them.
The reorganization reduces the Company's cost burden to 33.4% of the amount that would have been required if the Company had done it on its own; is expected to generate cash inflows through the receipt of the up-front payment, which is the consideration for the share transfer, and future milestone payments, which are subject to meeting conditions prescribed in the agreement; and accordingly is likely to improve profit and loss as well as cash flow. As the result, it will become possible to allocate the research and development budget to products that the Company develops, allowing flexibility in research and development strategies. In addition, collaboration between RACTHERA and the Company will lead to maintaining and strengthening the Company's pharmaceutical foundation, which will help the Company's employees

maintain and increase their motivation.
As discussed above, the reorganization is in line with the Company's management policy and business strategy, and contributes to improving the Company's corporate value. Therefore, the purpose of this transaction was considered appropriate.

The consideration for the transfer of shares is based on the result of value calculation obtained by the third-party organization, as described in "4. Basis for allocation of shares in the absorption-type company split and the share transfer, (2) Matters related to calculation," and was determined through negotiations/discussions with Sumitomo Chemical. The consideration for the transfer of shares includes an up-front payment of approximately 2 billion JPY and milestone payments of up to 150 billion JPY, which are subject to meeting conditions prescribed in the agreement as the RACTHERA business develops.
This form of consideration, commonly used in setting considerations for license-in / license-out in the pharmaceutical industry, is reasonable in light of the nature of the joint venture of the business, which is the pharmaceutical business. In addition, in view of the scientific innovativeness of each pipeline of the business, although the development risk is high, setting development and sales milestones, which enables a consideration to be paid according to the scale of the development when the business develops in the future, meets the expectations of the Company's shareholders, who anticipate considerable returns when the business achieves success. Concerning the inclusion of milestones in the consideration design for the share transfer, discussions were held with Sumitomo Chemical, which viewed it as appropriate in terms of the nature of the business that requires investment and time for commercialization, and agreed to it.
Considering the nature of the business, in which cash outflows, arising from research and development investments, are expected to continue for the time being, it is considered reasonable to make the amount of the up-front payment smaller than that of the milestone payments, which are subject to meeting conditions prescribed in the agreement as the RACTHERA business develops, in regard to the consideration for the share transfer. For the sales milestones, the possible cases were comprehensively studied on the basis of the success or failure of the pipeline under development, and the milestones were set by taking into account the business plan, the probability of success, and the present value based on the time when a milestone occurs. In addition, for the interests of both the Company and Sumitomo Chemical, the milestone timings were leveled to the extent possible on the basis of the business plan. As the result of a preliminary study by the Company, the current overall value, calculated by considering the up-front payment as well as gains subject to the achievement of the development and sales milestones, and the probability and timing of success, falls within the range of the result of stock value calculation by DTFA.
As the result of the verification above, the process for calculating the transaction price of the share transfer is considered to have transparency and validity.
The agreement between the parties concerned was confirmed in its entirety by the legal departments of both parties or outside lawyers who have no interest in the Company, and there is no unreasonable point concerning the terms and conditions other than the transaction price.
Therefore, the transaction conditions of the reorganization were considered valid and

not adverse to the interests of the minority shareholders of the Company.

Furthermore, the decision-making procedures for the share transfer comply with the policy stated in "11. Matters concerning transactions with controlling shareholders, etc., (2) Measures to ensure fairness and measures to avoid conflicts of interest," and the procedures were considered fair.

From the above, it was concluded that the decision to conduct the share transfer is not adverse to the interests of the minority shareholders of the Company.

(ii) The Absorption-type Company Split involving S-RACMO
The business is a core business of the Company, and SMaRT is the Company's important facility serving as the manufacturing plant for regenerative medicine and cell therapy products. S-RACMO, a joint venture between the Company and Sumitomo Chemical, engages in the Contract Development and Manufacturing Organization (CDMO) business for regenerative medicine and cell therapy products, and positions the relevant business (S-RACMO) as the strategically important business that supports manufacturing in this field. Therefore, the relevant business (S-RACMO) constitutes a core business of the Company. The CDMO business for regenerative medicine and cell therapy products, undertaken by S-RACMO, secures a competitive advantage in this business field through the sophistication of manufacturing / accumulation of know-how. Meanwhile, SMaRT, the Company's manufacturing plant for regenerative medicine and cell therapy products, is the world's first manufacturing facility as a plant dedicated to the manufacture of cell therapy products using iPS cells, and is an important asset for the Company to advance the research and development of iPS cell-derived cell therapy products. The Company's manufacturing plant organizations and S-RACMO have been collaborating in the technologies and human capital for manufacturing cell therapy products, and the integration through the absorption-type company split will accelerate efforts toward technological innovation and lead to strengthening the foundation of the CDMO business. In addition, the integration of the Company's manufacturing facilities/organizations and S-RACMO is expected to deepen technological collaboration, help strengthen the technological foundation and create new technological innovation, enhance recognition from outside the Company, and acquire new customers in the future. Moreover, the concentration of manufacturing facilities for regenerative medicine and cell therapy products is expected to generate technological and cost synergies, reducing the cost rate. Furthermore, making S-RACMO, a joint venture with Sumitomo Chemical, the key manufacturing base will reduce the Company's burden of investing in facility enhancement.
After the absorption-type company split, the Company can continue to get involved in the decision-making process and business management of S-RACMO by making investments and dispatching executives. In addition, in view of the importance of manufacture/production in the field of regenerative medicine and cell therapy, the execution of the absorption-type company split involving S-RACMO will allow close collaboration between the Company, Sumitomo Chemical, and RACTHERA, providing significant benefits.
As discussed above, the absorption-type company split involving S-RACMO is in line

with the Company's management policy and business strategy, and contributes to improving the Company's corporate value. Therefore, the transaction purpose was considered appropriate

The absorption-type company split does not change the decision-making process for the business management of S-RACMO; the Company can continue to get involved in business management according to the investment ratio. The agreement between the parties concerned was confirmed in its entirety by the legal departments of both parties or outside lawyers who have no interest in the Company, and there is no unreasonable point concerning the terms and conditions other than the transaction price. Furthermore, the major assets of the relevant business (S-RACMO) are tangible fixed assets, and no important intangible assets are expected to be created in the future. So, it is considered appropriate to appraise them using the cost approach (based on book value), and the process for calculating the transaction price is considered to have transparency and validity.
Therefore, the transaction conditions of the reorganization were considered valid and not adverse to the interests of the minority shareholders of the Company.

Furthermore, the decision-making procedures for the absorption-type company split involving S-RACMO comply with the policy stated in "11. Matters concerning transactions with controlling shareholders, etc., (2) Measures to ensure fairness and measures to avoid conflicts of interest," and the procedures were considered fair.

From the above, it was concluded that the decision to conduct the absorption-type company split involving S-RACMO is not adverse to the interests of the minority shareholders of the Company.

Contact:
Corporate Communications, Global Finance
Sumitomo Pharma Co., Ltd.
E-mail: prir@sumitomo-pharma.co.jp