

Takeda Pharmaceutical

Takeda Pharmaceutical has significantly improved the transparency and accountability of its executive remuneration, aligning itself more closely to global peers. EOS has engaged it on this topic for the past 16 months to increase investor confidence in the company for the long term.

Background

Takeda Pharmaceutical has demonstrated increasingly progressive governance practices in recent years. The board has a notably high level of independence and internationality compared to its Japanese peers. Takeda Pharmaceutical has also reduced a significant volume of cross-shareholdings over the past year. It already had more extensive reporting on executive remuneration than most Japanese companies, including on some of the performance metrics used for short-term incentives and long-term incentives (LTI) and a proportion of each element of variable pay against the fixed pay.

However, full details such as the exact metrics used, their weighting or the payout level against targets were not disclosed. Even though the amount of executive pay was significantly larger than that of an average Japanese company and almost comparable with its western peers, the disclosure level was not up to western standards.

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Our engagement

In our meeting with the CFO at the company's Tokyo headquarters in March 2019, we encouraged the company to enhance disclosure on executive remuneration, especially since Shire, which Takeda Pharmaceutical had recently acquired, reported significantly more details on pay.



Engagement objective
Governance:
Remuneration disclosure

Company overview

Takeda Pharmaceutical focuses its products on the core therapeutic areas of oncology, gastrointestinal, and central nervous system disease. The US market has always comprised a significant portion of its overall revenue but this has substantially increased following its acquisition of Shire at the start of 2019.

At our group meeting with the CEO...we discussed how the executive remuneration scheme reflects the company's plan for a long-term growth.

Acknowledging that Takeda Pharmaceutical already published more details than the average Japanese company, we noted that only some of the metrics linked to its annual bonus and the LTI were named and it gave no exact breakdown or weighting. We asked for these details and then shared best practice examples of remuneration reporting, as well as our remuneration principles, as a follow-up to the meeting.

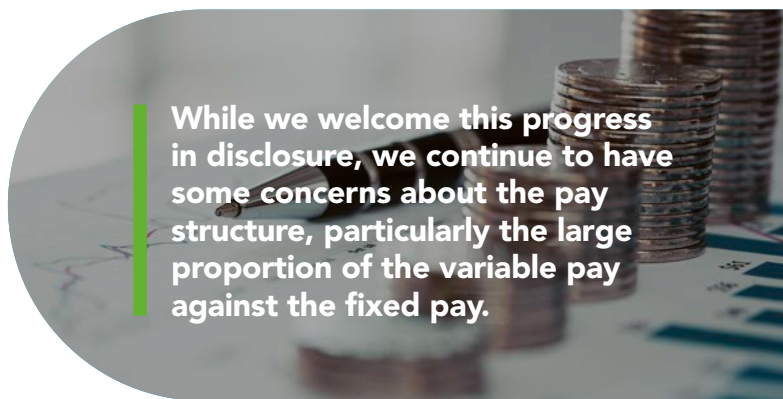
At our group meeting with the CEO and other executive team members in London in May 2019, we discussed how the executive remuneration scheme reflects the company's plan for long-term growth while increasing profitability in the medium term.

[†]Total credit exposure includes loans, foreign exchange assets, acceptances and guarantees, and committed lines of credit.

We spoke with the general counsel in June 2019 shortly before the company's AGM and had extensive discussions on remuneration proposals. We subsequently recommended voting against the payment of a cash bonus to executive directors, as the company had failed to provide a convincing explanation as to why the ceiling of the bonus had increased from 100% of the fixed pay to 250% over the previous year. We expressed our disappointment that the company failed to notify shareholders of such a change in advance. We also noted our concerns about a significant increase in the ceiling of the share-based compensation from 400% of the fixed pay to 600%. In addition, we supported a shareholder proposal to introduce a clawback policy. Although still uncommon in Japan, we argued that companies like Takeda Pharmaceutical, which operate globally and pay their executives comparable amounts to their western peers, should introduce such a policy.

Changes at the company

In our meeting with the head of sustainability in November 2019, we were encouraged to hear that the company was addressing the results of the shareholder meeting and indicated that it was taking action. In our call with the chief human resources officer in May 2020, we welcomed the introduction of a clawback policy as well as its plan to disclose a detailed remuneration policy, together with the AGM circular. Shortly afterwards, we welcomed the company's disclosure of extensive details on executive remuneration including the breakdown and weighting of metrics and the pay-out levels according to the level of achievement, both for the LTI as well as the cash bonus, in line with our request.



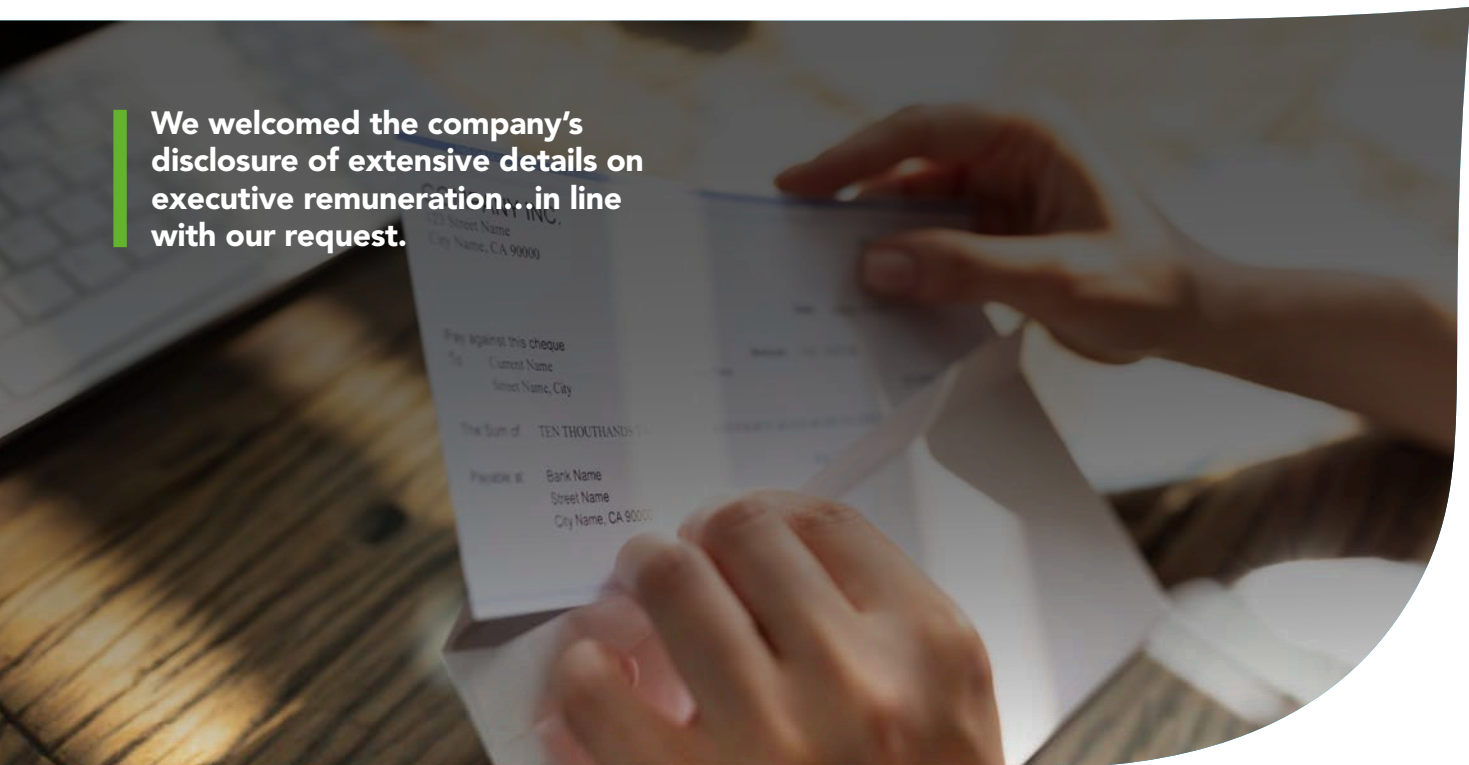
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Next steps

While we welcome this progress in disclosure, we continue to have some concerns about the pay structure, particularly the large proportion of the variable pay against the fixed pay. We will continue to engage on this as well as other issues including board gender diversity and disclosure of more extensive climate scenario analyses.



Sachi Suzuki
Engagement
EOS



We welcomed the company's disclosure of extensive details on executive remuneration...in line with our request.

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