



December 20, 2019

The Board of Directors  
resTORbio, Inc.  
500 Boylston Street, 12<sup>th</sup> Floor  
Boston, MA 02116

Dear Members of the Board:

A fund managed by Butler Hall Capital LLC (“Butler Hall” or “we”), has recently become a top shareholder of resTORbio, Inc. (“TORC” or the “Company”), with ownership of approximately 1.3% of the Company’s outstanding shares. It is rare to write a letter regarding an investment in a stock where the net cash on the balance sheet equates to more than 270% of the current market cap<sup>1</sup>. In fact, this Company has the single largest net cash balance of any US company in the Russel 2000, which has an average net debt as a % of market capitalization of approximately 40%<sup>2</sup>. Unfortunately, this is the situation at hand following the 90% decline in the share price. The public market valuation assumes management will destroy value through significant cash burn without any success from the Phase 1b/2a trial of RTB101 (in combination with sirolimus or alone) in inhibiting TORC1 in Parkinson’s disease (“PD”) and other aging-related diseases. We recognize the disappointment emanating from the results of the PROTECTOR 1 Phase 3 study in failing to meet its primary end points and support management’s decision to not commence the Protector 2 studies. However, we question whether there is a viable long-term strategy and are deeply concerned that the Company will continue to burn cash at a significant pace.

**We believe it is the responsibility of the Board of Directors (“Board”) to swiftly address these concerns and prove that any further use of cash is in the best interest of stakeholders. Concurrently, we strongly encourage the Board to consider all strategic alternatives including an orderly liquidation of the business. We believe such a liquidation would result in more than a 125% shareholder return from current levels.**

**Analyst Community Values resTORbio Significantly Below Net Cash:**

The analysts that have followed this Company have a high degree of skepticism on the stock. In the past six weeks, the sell side community has cut its price target by 86% (see below) to reflect continued cash burn and a very low probability of any drug development success. For example, Evercore ISI recently cut their price target from \$10 per share to \$2 per share<sup>3</sup> noting that without “indications with exceptionally strong biological rationale,” they believe that “the company will be better served pursuing a private company for a reverse merger.” We fully agree that it is in the best interest of all stakeholders for the Company to evaluate strategic alternatives. We also believe this view is shared by others on the sell-side as well as key public investors. It has not gone unnoticed that the largest shareholder has

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<sup>1</sup> Source: Bloomberg. Net cash as a % of market capitalization is calculated by taking Cash and Marketable Securities and subtracting Total Debt ex Operating Leases and then dividing by current market capitalization (as of 12/16/2019).

<sup>2</sup> Source: Bloomberg. Average stock in the Russel 2000 excludes highly levered names as measured by 10x net debt to market capitalization (as of 12/16/2019)

<sup>3</sup> Source: Evercore ISI – November 15<sup>th</sup>, 2019 report titled “Failed RTB101 P3 Leaves Dim Hopes; PT to \$2”

continued to sell stock despite a negative enterprise value, which could only be reflected as a negative statement surrounding the Company's current corporate strategy.

Sell Side Price Target Change (Q4 - 2019)					
Analyst	Date	Old PT	New PT	Change	Cash Burn*
Wedbush	15-Nov	\$26.00	\$2.00	(92.3%)	(\$44mm)
Cantor Fitz.	15-Nov	\$23.00	\$3.00	(87.0%)	(\$7mm)
Evercore	15-Nov	\$10.00	\$3.00	(70.0%)	(\$44mm)
SVB Leerink	15-Nov	\$40.00	\$2.00	(95.0%)	(\$44mm)
<b>Average</b>		<b>\$24.75</b>	<b>\$2.50</b>	<b>(86.1%)</b>	<b>(\$35mm)</b>

*\*Implied cash burn based on analyst price target*

*Source: Bloomberg*

### All Options Should be Considered:

We have had the opportunity to speak with TORC's management team. Management has been forthright in providing detail surrounding the failed PROTECTOR 1 study as well as laying out the risks and opportunities faced by the Company going forward. Management has made it clear that they believe there is very little read-through from the failure of RTB101 in preventing clinically symptomatic respiratory illness (CSRI), in the PROTECTOR 1 study, to the likelihood of success of RTB101 in inhibiting TORC 1 in PD and other aging diseases. However, it's apparent that the analyst community has little to no faith in this viewpoint. We believe the Board should take more action to ameliorate the significant concerns of the shareholder base and should immediately initiate a comprehensive strategic review in addition to taking significant actions to reduce the heavy cash burn at the Company. Further, we believe the recent announcement regarding the headcount reduction fails to appropriately address the Company's corporate strategy and its efforts to reduce cash burn. As part of this comprehensive review, we believe all value enhancing initiatives should be considered. This includes, but is not be limited to; sale of the entire business, full liquidation with cash being returned to shareholders, partnering with a larger pharmaceutical company to run the Phase 1b/2a trial, selling RTB101 as part of a royalty stream with milestone payments based on commercial production, and rightsizing the balance sheet and returning excess cash to shareholders.

### Single Largest Net Cash Within the Russel 2000:

As of the writing of this letter, TORC holds the single largest net cash balance of any US company in the Russel 2000 (see table below). As can be seen in the table, only 3 US Russel 2000 companies currently have net cash as a % of market capitalization exceeding 200%. However, we believe TORC is in a different operational position as the other two companies still have significant trials underway that require a substantial cash balance. Nonetheless, TORC is significantly overcapitalized vs. the broader index as ~96% of the constituents of the index either currently operate in a position of net debt or with cash balance as a % of market capitalization is less than 50%.

	Net Cash as a % of Market Cap:					
	>200%	150-200%	100-150%	50-100%	0-50%	Net Debt
# of Stocks:	3	4	10	57	687	1,161
% of Distribution	0.2%	0.2%	0.5%	3.0%	35.7%	60.4%
Median	263%	177%	121%	60%	12%	(40%)

*Source: Bloomberg (as of 12/16/2019)*

## Outlier Amongst Biotechnology Companies:

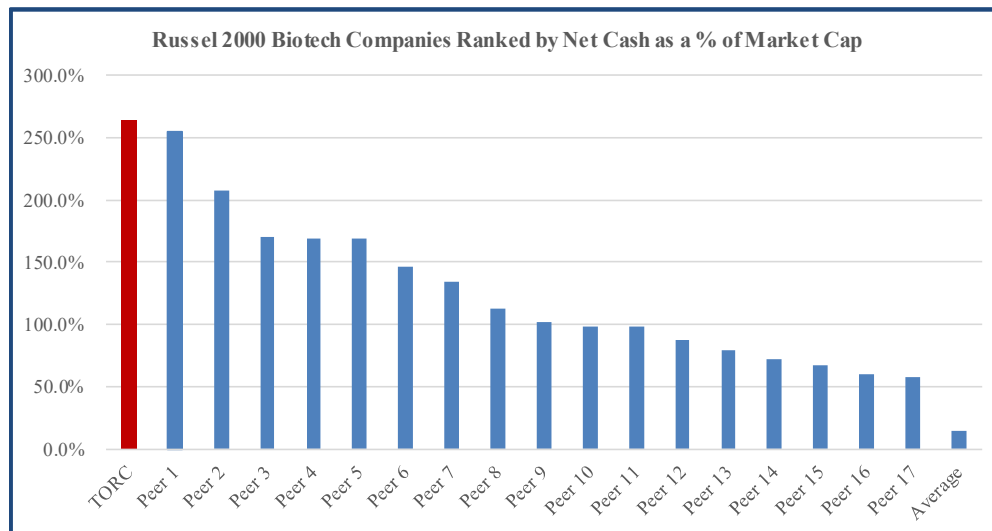
The valuation dislocation is strikingly apparent when evaluating the 158 US Biotechnology companies that are part of the Russel 2000. On average, the net cash as a % of market capitalization<sup>4</sup> is ~15%. There are only 6 companies in this sample size with net cash as a % of market cap that exceeds 150% (Exhibit A). Of the 3 companies with a net cash as a % of market cap exceeding 200%, we believe TORC is the only one that has recently suffered a significant Phase 3 set-back and has not appropriately addressed its cost structure. Based on our estimate of “normalized” cash burn from the Phase 1b/2a study, we believe TORC’s is currently significantly over capitalized. Even if management can prove, without a doubt, that the Phase 1b/2a trial is in the best interest of shareholders, TORC is still in a position to return approximately \$42mm of cash (a special dividend of ~99% of the current market capitalization - Exhibit B). Moreover, TORC was successful in raising approximately \$50mm of proceeds in a March 2019 equity offering. We believe that most of this equity raise was done with the anticipation of supporting the PROTECTOR 1 and PROTECTOR 2 studies. Given the cessation of these studies, it is logical to return this excess cash to shareholders.

### EXHIBIT A:

	Net Cash as a % of Market Cap:					Net Debt	Total
	>200%	150-200%	100-150%	50-100%	0-50%		
# of Stocks:	3	3	4	15	114	19	158
Mean	242%	169%	124%	67%	21%	(32%)	15%
Median	254%	169%	124%	58%	18%	(14%)	28%

Source: Bloomberg (as of 12/16/2019)

### EXHIBIT B:



Source: Bloomberg (as of 12/16/2019)

<sup>4</sup> Source: Bloomberg. Net cash as a % of market capitalization is calculated by taking Cash and Marketable Securities and subtracting Total Debt ex Operating Leases and then dividing by current market capitalization (as of 12/16/2019)

**EXHIBIT C:**

TORC LTM Cash Burn as a % of Net Cash	(\$56)
Years of Cash Remaining @ LTM Cash Burn	2.1x
Years of Cash Remaining @ Normalized Cash Burn	3.3x
Implied Cash that can be Returned to Shareholders	\$41.9

**It is the fiduciary duty of the Board to act in the best interest of shareholders. As such, a strategic review to maximize shareholder value should be initiated. We strongly encourage the Board to act swiftly to shore up waning investor confidence and address the Company's forward prospects.**

Sincerely,

Brad Lundy  
Managing Member, Butler Hall Capital LLC

## **Disclaimers**

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