

SPECIAL FEATURE

Toward Medical Systems Business Growth: Surgical Business Enhanced by Acquisition of Gyrus

1.

Olympus acquired the UK-based medical equipment company Gyrus Group PLC in February 2008. Please tell us more about Gyrus.

- > With approximately 1,400 employees spread over 13 worldwide locations, Gyrus was a UK-based medical equipment company listed on the London Stock Exchange. Its consolidated net sales were £220 million (approximately ¥47 billion*) as of the fiscal year ended December 31, 2007. Since its inauguration in 1989, Gyrus has been supplying electro-surgical knives for urological and gynecological use, while expanding its business scale by acquiring various companies in the field of minimally invasive medical procedure. Among them, the 2005 acquisition of American Cystoscope Makers, Inc. (ACMI), a well-established U.S. endoscope company, granted Gyrus the imaging technology to further expand its business. With its Gyrus ACMI brand maintaining a dominant position in the North American market, Gyrus also possesses a number of products and technologies that are attractive to Olympus.



In November 2007, Olympus and Gyrus agreed on a friendly acquisition. The two companies completed the procedures necessary to include Gyrus in Olympus' scope of consolidation in February 2008.

*£1= ¥215

2.

Please tell us the background to the acquisition.

- > In accordance with the 2006 Corporate Strategic Plan, which was established and released as the Olympus Group's medium-term management strategy, we have been conducting a variety of measures with the aim of



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President, Olympus Medical Systems Corp.

reinforcing and expanding our businesses in the surgical and minimally invasive procedure fields. The acquisition of Gyrus formed part of this basic strategy in the Medical Systems Business.

Minimally invasive procedure is a method for treating affected areas by means of endoscopes without opening the abdominal cavity. In recent years, it has been expected that minimally invasive procedure would thereby contribute to easing the physical stress placed on patients, shorten the lengths of hospital stays and improve the efficiency of medical care services. Today, endoscopic surgery is performed for various diseases in the wider clinical area, encompassing general surgery, gynecology and urology. In global terms, Olympus currently boasts a 70% share of the gastroenterological endoscopes market. However, we must endeavor to develop the surgical business to contribute more to minimally invasive procedure and to nurture our Medical Systems Business.

After repeatedly reviewing our strategy, we came to the conclusion that Gyrus would be an ideal partner in reinforcing Olympus' surgical business. This was based on the synergies expected for both Olympus and Gyrus in terms of products and regional strategies in the surgical field.

3.

Specifically, what kinds of synergies can be expected on the products strategy front?

- > We can expect synergy from the integration of technological skills. Endoscopic surgery requires high diagnostic and therapeutic capabilities. In order to meet these needs, primarily for rigid endoscopes Olympus can offer its popular, high-quality imaging devices that utilize

high-definition video technology. On the other hand, Gyrus excels thanks to its proprietary energy-related processing devices. For example, Gyrus disposable electrosurgical knives are the most appropriate product for laparoscopic surgery, a typical minimally invasive treatment using energy technologies, which are indispensable in this field. Therefore, Olympus succeeded in gaining access to both imaging and energy technologies through its acquisition of Gyrus. By integrating both companies' strengths, we believe that we will be able to provide higher diagnostic and therapeutic capabilities to medical institutions and patients.

4.

What changes will be made to the sales structure after the business integration?

- > On the regional strategy front, we can expect synergies in product lineups and marketing capabilities. Particularly in the urological and gynecological fields Gyrus enjoys outstanding brand power in North America, which accounts for approximately 80% of its sales. The acquisition will boost our marketing capabilities in the surgical field, add Gyrus' long-established relationships with doctors and hospitals to our assets, and reinforce the basis of our surgical business in North America. After the acquisition, Olympus will make effective use of Gyrus' skillful sales personnel to commence a new marketing system in the surgical field. In specific terms, we have succeeded in quadrupling the number of sales representatives in North America.

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Furthermore, we are planning to implement the “cross-sell” method in the new structure. With the aim of fully capitalizing on the synergies to be gained from business integration, Olympus will sell Gyrus electro-surgical knives to Asian and European customers, and Gyrus will sell Olympus flexible and rigid surgical scopes to North American customers. Through this cross-selling agreement, we expect to expand sales opportunities. Given its strong brand power, Olympus will maintain the Gyrus ACMI brand to promote Gyrus’ inclusion in the Olympus Group.

Through this business integration, we also expect to enhance efficiencies in the administration, manufacturing, distribution and purchasing sectors.

5.

Finally, what makes you so sure that integrating Gyrus will be a success?

- > Olympus conducts business operations in a variety of areas in the surgical field. This acquisition has expanded our market share, particularly in the areas of urology and ear, nose and throat (ENT). Based on an in-house analysis, after the business integration we will have an over 50% share—the world’s largest—of the total market for urological endoscopes, covering Japan, the United States and Europe. Our ENT endoscopes will also boast 30% of market share on a global scale. These achievements will enable us to compete with other major players in the industry. We spent approximately

¥210 billion for this acquisition, which to us was not an unreasonable price. We will face a number of hurdles in fully capitalizing on the synergistic effects of this acquisition. However, we are hopeful that we will be able to overcome those hurdles and enhance sales and business efficiencies to get a full return on our investment. The acquisition of Gyrus will bring significant growth potential for Olympus in the surgical field.

At the moment, we are estimating a synergistic effect of approximately ¥350 billion sales over the 10 years from fiscal 2009 to 2018. On the other hand, we expect to gain an estimated ¥38 billion from business streamlining over the same period. By reinforcing the surgical business on a global scale, we are confident that we have secured a foothold for future growth in the Medical Systems Business to add to our strong performance in gastroenterological endoscopes. The medical equipment industry is one of constant development and improvements in treatment. Given this, Olympus will take maximum advantage from this acquisition to realize better medical care—which being a leading medical equipment company we see as our mission—by providing treatment technologies that are more patient-friendly, reliable and efficient.



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