November 5, 2021

**Olympus Corporation**
**2Q FY2022 Earnings Conference Call Q&A (Summary)**

(Disclaimer)

For your reference, please find an English translation of the question and answer session at the conference call for financial results for the second quarter of the fiscal year ending March 31, 2022 below. This transcript has been edited/modified from the original Q&A conversations for the sake of clarity.

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[Q&A (Summary)]

Q: Can you provide your analysis of the performance in the first six months compared to the internal plan? Can you also tell us the difference from the outlook announced in August?

A: The actual revenue was better than the internal plan, particularly in the U.S. SG&A expenses were slightly lower than the plan, operating profit was slightly better, and the operating margin was higher by 0.1-0.2% points.

Q: In 1Q, the growth rate in China appeared low due in part to the Buy China initiatives. In 2Q, it was high. Can you provide more details on the background?

A: Even in 1Q, we didn't recognize a significant impact, although there were some cases that appeared to be affected. In 2Q, we continued to recognize that the overall impact on our Chinese business was pretty much limited despite a few isolated exceptions. Looking at the six months business trend, in ESD we saw CV-290(Video processor for GI endoscopes) and GI endoscopes continuing the momentum.

Q: In 2Q, ESD did well with operating margin as high as 32%. Is that attributable to business environment or product mix?

A: Including the EVIS X1 series lineup, the sales contribution of scope products (which have higher margin) is rising. In particular, the sales of duodenoscopes and colonoscopes are increasing in the U.S. In terms of market environment, the market as a whole has been recovering, rather than specific factors impacting us. Customers' purchases of capital products are coming back to normal, and we expect this trend to continue.

Q: Your May forecasts were based on a conservative revenue outlook. Can you explain the reason why the situation is now different from the premises at that time?

A: At the time, we used the word "cautious". We told you that we were particularly cautious about Japan and the U.S. It was difficult to predict the impact of COVID-19, so we issued cautious views. At present, although we don't think Japan has completely come back, it is on the recovery mode in September and October, so we would say the market environment is improving there. In the U.S., despite the fact that the GI endoscopy system on the market is in its ninth year, the sales of scopes exceeded our expectations and are trending favorably. We assume that this story will continue.

At the beginning of the fiscal year, it was difficult to predict the outlook because of the emergence

of the Delta variant in the middle of pandemic. We saw some procedures in certain medical areas cancelled, which led to our cautious outlook at the beginning of the fiscal year. The situation has improved since then due to improved vaccination. Customers' operations are returning to normal, and we are seeing overall market recovery. In addition, EVIS X1 has been doing well. Since we resumed shipments of EDOF scopes in July, we have received great customer feedback. We believe that our outperformance compared to the original forecasts was due to EVIS X1's strong performance and stronger-than-expected market recovery.

Q: Do you plan to tell us more details on Global Business Services (GBS) on Investor Day? Also, do you plan to discuss detailed growth strategy for TSD?
A: One of the agendas is review of the corporate strategy that was announced in 2019. In addition, we would like to discuss growth strategy for the medical business that is in line with the corporate strategy. Speaking of GBS, We don't touch on much. We plan to focus on growth strategy which TSD will be covered.

Q In 2Q, both ESD and TSD were driven by China's strong growth. Can you explain the background of this growth despite the announcement of the Buy China initiatives by the Chinese government in May?
A: While the government guidelines were issued and specific items were identified, our mainstay GI endoscopy system is not included. We understand that local products are not yet as valuable as our products at this point. We hear that the guidelines are not uniformly being implemented and that the interpretation in the field is still not constant.
We place top priority on patient care in cooperation with medical institutions. We believe that Buy China initiatives will continue, but we have a solid strategy and it is working well. We will continue to show the market that we are providing clinical outcomes through products useful to healthcare providers, technical support, and medical evidence. The value of a product includes not only price but also quality. We would like to continue to provide high quality products in terms of both clinical and economic values.

Q: So, is it correct to understand that existing customers are purchasing in China, meaning that the customer attribute has not changed from public hospitals to private ones?
A: I think your understanding is correct.

Q: Can you sort out various risk factors (rising shipping costs, rising raw material costs, semiconductor shortage, etc.) by magnitude of impact? How have you factored them into your forecasts?
A: Shipping costs, raw materials, semiconductor, etc. are our concern, and we understand the current situation that prices are different from what we saw in the past. We are taking different measures depending on each issue and have factored in negative elements into our forecasts. But specific negative impact has not yet emerged at the consolidated level.
Semiconductors are used in many of our products, and while it is difficult to provide quantitative explanations, we are monitoring closely. We have secured what we need for now thanks to tenacious efforts by the procurement department, as well as the inventory on hand. So we don't think there will be a significant impact in the current fiscal year, but if supply chain disruptions continue, there will be an impact. We see a possibility that our performance will be negatively impacted in the next fiscal year.

Q: I think the number of procedures are coming back although the pace may be slow. But, in the U.S. in particular, it's been said that some procedures might be deferred due to staff shortage. What are your thoughts on the outlook on the number of procedures or endoscopies?
A: The number of critical care procedures are returning to normal and we think this trend will continue. The number of other procedures (for example, ENT-related) have not come back to the pre-COVID (FY2020) levels, but medical institutions are actively working diligently, and it is gradually moving towards normal. We have heard from U.S. customers about the staff shortage, too. Although there are some delays in procedures, healthcare providers are making every effort to find ways and continue to provide procedures and services. So while non-critical areas may not have returned to 100% of the pre-COVID levels, critical areas are returning steadily.

Q: The operating margin of TSD was as high as 23% in 2Q. Was there any special factor? Do you think this is a sustainable margin level?

A: The main reasons were the transfer of the bronchoscope business to TSD from this fiscal year, the absence of recall costs of ¥5.9 billion for bronchoscopes that were recorded in the previous year, and that sales in the main areas were strong. As we expect SG&A expenses to increase toward the end of the fiscal year, we think 2Q profitability was slightly higher than it should be.

Q: While other medtech companies had a struggle in sales due to the Delta variant, sales in TSD grew about 9% sequentially from 1Q, with all regions contributing. Can you explain the background of this? Also, in the U.S., CMS has announced revisions to its Physician Fee Schedule (PFS). Are there any product groups that you think will be affected by the revisions? I wonder if the sales promotion of iTind might be impacted.

A: There are external and internal factors. For external factors, in addition to recovery in the number of procedures, healthcare providers have learned to manage operations under the pandemic, so they can continue to provide care to patients. For internal factors, we are expanding product portfolio by launching a variety of new products. In Urology, we saw strong momentum in resection electrodes for BPH and SOLTIVE SuperPulsed Laser System, a lithotripsy solution for urinary stones. SOLTIVE products are taking market share steadily. In Respiratory, Veran Medical Technologies did well. In GI-Endotherapy, the launch of new products made a contribution. We think this combination of external and internal factors resulted in strong performance.
We are paying close attentions to PFS. We just launched iTind, and it is still in an early inning. Therefore, we are focusing on training for healthcare professionals to use them safely at this point. We think economic value includes not only price but also how efficiently and quickly an entire procedure can be done. We cannot control the reimbursement amount, so we focus on whether a procedure is beneficial for patients as an important factor. We believe that those with clinical, efficient and economic value will be evaluated in PFS.

Q: Is there any change in the schedule to launch EVIS X1 in the first half of FY2023 in the U.S.? Also, any update on the schedule in China?

A: There is no change in the U.S. schedule. TBD for China. We will announce when we are able to do so. In China, there is still strong momentum in sales of the previous generation model.

Q: When do you think EVIS X1 will make a full-scale contribution to sales?

A: EVIS X1 is made up of various products. Not all of those products will be launched at the same time. They will be launched one by one, while we continue to sell old generation model. We did it the same way for previous generations. We expect the launch in the U.S. to be in the first half of the next fiscal year, and the contribution to sales will start small at first and gradually increase. With EVIS X1 gaining momentum in Japan and Europe, expanding into Asia, sales in the GI endoscope segment are expected to increase.

Q: Can you explain the reason why SG&A expenses are not expected to increase as sales increase in the revised full-year forecasts? Do you think the SG&A ratio of just under 47% is sustainable? Or do you expect it to increase going forward? What are your thoughts?

A: Since we announced Transform Olympus, we have been working diligently, which resulted in the current SG&A ratio. We call it “run the business” internally. We are trying to control the costs of running the company. Besides, we are trying to change the balance between investments for growth and investments for infrastructure such as QA/RA and IT. Those have been reflected in the current figures. We don’t necessarily view this as being over-stretched, and we are aiming for a lower SG&A ratio. While the next year’s forecasts have not yet been determined, we would like to continue this momentum.

Q: What elements have you factored into the revised forecasts?

A: When we reviewed the full-year forecasts based on our performance in the six months, we thought there is room to raise revenue outlook for the remaining quarters. On the expense side, we will continue to implement strict controls.

Q: (Supplement: On increase of ¥12 billion in other expenses in the revised full-year forecasts) Was that ¥12 billion cost associated with the reorganization of SSD booked in 2Q? Or nothing was charged in 2Q and all will be booked in the remaining quarters?

A: I think you are pointing out a difference of ¥12 billion in the “other income and expenses” line on P12 of the presentation material. The expenses associated with the reorganization are not ¥12

billion, but account for the majority of it. While a small amount was recorded in 2Q, most are expected to be recorded in the remaining quarters.

(End)