

**Olympus Corporation**  
**FY2020 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 fiscal year ended March 31, 2020 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: Please tell us about the impact of COVID-19 on ESD and TSD by region from March to May.

A: The situation varies region by region. TSD in the US has experienced significant declines vs. the previous year. TSD in Europe has also been negatively affected although the magnitude is smaller than in the US. While there are still many uncertainties, we are seeing some signs of slight recovery in China due partially to order backlog.

Q: You mentioned that the U.S. is struggling while China is on the way back, but what about ESD by region? Is it correct to understand that March and April were flat but the situation will deteriorate from May due to the suspension of new order intake?

A: The trend in ESD is less visible than that of TSD. If we smooth out the monthly fluctuations, it appears that Japan, the US and Europe have the same color although we see some negative impact in Japan in April.

Q: The inventory in the Imaging Business was ¥18.6bn at the end of Dec 2019. What was it at the end of Mar 2020?

A: The inventory amount was ¥19.3bn at the end of Mar 2020, a slight increase from Dec 2019.

Q: I think the Imaging Business will remain in a challenging environment. You have already implemented

measures such as fixed cost reductions, and it seems difficult to make further reductions. Please tell us how you view the situation. Will it remain tough in this fiscal year, or is there any room for further reductions on a zero basis?

A: I think that we will hit the wall sooner or later if we just continue to follow the same approach for business model and locations. It would be impossible to break the status quo unless we deploy a new idea of changing the business model and locations on a zero basis.

Q: It appears that specific actions have not been taken toward achieving OPM of 20%. Is it because some were postponed due to COVID-19? Or, was it your original plan to put more specific actions in the new management strategy to accelerate the 2H of FY2021?

A: As you pointed out, we could not anticipate such an unprecedented situation. As a result of COVID-19 impact, which started to materialize in the second half of March, the efficiency of various things is falling. There are some delays in the formulated action plans, but the five executive officers have frequently discussed measures to achieve the strategy while working remotely. If there are important decisions that should be announced, we will make timely disclosures as in the past.

Q: Please tell us about your views on the speed of recovery and priorities in ESD/TSD after COVID-19.

A: Although the situation is still fluid, in order to formulate this fiscal year's plans and forecasts, the executive officers are scheduled to hold discussions several times in June. We would like to cover this topic, if possible, in the presentation for this year's guidance, which is scheduled to be announced on June 24.

Q: ESD has launched the new-gen endoscopy system in Europe and some Asian countries. But given that the old model is still on the market in the US, do you see any risk of impairment loss for endoscope inventories recorded on the balance sheet if the demand from hospitals is delayed?

A: At this moment we do not expect that to happen.

Q: In Q4 (Jan-Mar), SG&A expenses were down ¥6.6bn YoY, but that is due mainly to capitalized R&D expenses of ¥6bn and actual reductions in Q4 (Jan-Mar) seem small. Please tell us about your thoughts on SG&A expenses, particularly for this fiscal year.

A: Until Q3, we had explained that outsourcing costs were one of the large reduction items, but one-time QA/RA costs that were not anticipated were incurred in Q4 (Jan-Mar). This negative factor resulted in an overall pace-down. In the meantime, capitalization made significant progress in Q4 (Jan-Mar).

Q: On page 8 ("Fiscal 2020 vs. Forecasts") of the financial results presentation, other expenses significantly increased to ¥11bn compared to the forecast as of Feb. Please tell us more specifically what expenses were incurred unexpectedly.

A: There are several factors. For example, impairment loss of duodenoscopes in the US, impairment loss of R&D assets in Japan, and Transform Olympus related costs. Costs related to Transform Olympus were not included in the forecast, one of the reasons for higher other expenses.

Q: Would it be possible to disclose the amounts for "other expenses" incurred unexpectedly by item? Transform Olympus related expenses were ¥3bn in the Feb plan. Please explain in detail how much of this amount has been added. Please tell us about the items in "Major other expenses" listed below on the page 6 "Factors That Affected Consolidated Operating Profit". Which items correspond to unplanned expenses?

A: With regard to the Transform Olympus related expenses, we are not going to disclose further details because of the contract with the other party. Unplanned expenses include ¥1.5bn impairment loss of duodenoscopes, ¥1.5bn impairment loss on fixed assets in the Imaging Business, and part of ¥4bn expenses related to Transform Olympus.

Q: In Apr, ESD sales declined by only 10% YoY, showing resilience compared to medical devices in TSD. Please explain the background of the impact in Apr being minimal.

A: As ESD's main products are capital products, the extent of the decline was relatively small due to the order backlog that we have accumulated. From May onward, it is expected to decline more as our sales promotion activities have been restricted. In the meantime, since TSD's business is more linked to the number of procedures, COVID-19 has a direct impact without a time lag.

Q: I think that the ESD business is involved not only in upfront payments but also in lease agreements and repair services. Are these factors the reason for the relative resilience of ESD?

A: Within ESD, we have been working to increase the sales ratio of lease-based contracts, maintenance contracts and consumables such as disinfectant. These ratios vary region by region. For example, the percentage of lease-based revenue is the highest in N. America, with 10-20% in Japan. This part may be less susceptible to COVID-19. However, consumables business has been significantly affected because it is closely linked to the number of procedures.

Q: What percentage do respiratory endoscopes, which are used to treat COVID-19 patients, account for in ESD? Are you seeing any special demand?

A: Sales of BF (bronchoscope) and LF (laryngeal scope) represent only a few % of total ESD sales. In the treatment of COVID-19 infected patients, LF and MAF (airway management mobile scope), which is handy and used for sputum suction, are in high demand and we are increasing production considerably although the size of the sale is small.

Q: What would be your responses to the New Normal (after COVID-19) in ESD and TSD?

A: In Europe, we are conducting online or web-based sales promotions not only in the Scientific Solutions Business, but also in the Medical Business, and this has been making certain contributions. We have also begun participating in virtual academic conferences and trainings. We will continue to adapt to changes in the environment and consider business activities under the New Normal. In the future, it will be necessary to strengthen online and web-based activities rather than on-site demonstrations in hospitals.

Q: European academic societies have recommended postponement of endoscopic procedures since March. I just wonder if ESD's profitability has deteriorated. In particular, the situation in the US must be tough. Please give us more details about April performance by region.

A: Total sales in ESD fell by 10% in April. The situation varies region by region. N. America was down more than 10%. China, on the other hand, posted double-digit growth in April and Europe also didn't decline. The postponement of non-urgent endoscopy has been announced in the guidance provided by academic societies not only in Europe but also in other countries, so we are seeing the impact. However, as of April, the decline in the number of procedures had a greater impact in consumables than in ESD.

Q: What about the impact to GI endoscopy system and surgical endoscopy system?

A: In the US, the situation of GI endoscopy system was more severe than the surgical endoscopy system from Q4 to April. May is expected to be tougher than April.

Q: I think it takes a few to six months for the recovery of needs for endoscopic screening to avoid COVID-19 infection risks, but you said there are signs of recovery in China. How do you view the background?

A: There are COVID-19 infection risks when using a GI endoscope. It seems that the needs are recovering in China probably because a national project aimed to cure diseases at early stages is proceeding even under the recent circumstances. We are considering preparing protective covers for GI endoscopic screenings.

Q: How much was the forex impact for the full-year SG&A reductions? What is the increase in provisions of approx. ¥10bn on B/S about?

A: The contribution from forex was approx. ¥10bn. That increase of provisions on B/S is for the transitioncost related to the new duodenoscope.

(End)